

# Issues affecting utilization of the European Union's Generalised System of Preference (GSP)

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<b>Contents</b>	<b>Page</b>
Dedication	II
Acknowledgements	III
Contents	IV -X
Figures	XI-XIII
Table	XIV
Glossary	XV
Abstract	XVI

## **Dedication**

I dedicate the PhD thesis to my husband Dr Jonathan English and children Alice Elizabeth English and James Jonathan English who have supported me from the very beginning and have encouraged me to complete the thesis.

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# CONTENTS

## **Chapter 1 Introduction ..... - 1 -**

1.1	Introduction .....	- 1 -
1.2	Purpose of the study .....	- 3 -
1.3	The Development of the Study .....	- 4 -
1.4	Approach to the research .....	- 6 -
1.5	Implementation of research .....	- 7 -
1.5.1	Historical research .....	- 8 -
1.5.2	Interview research .....	- 8 -
1.5.3	Brexit .....	- 10 -
1.5.4	Interpretation of historical, interview and Brexit findings .....	- 10 -
1.6	Structure of the thesis .....	- 12 -
1.7	Contribution to Knowledge .....	- 12 -
1.8	Conclusion .....	- 14 -

## **Chapter 2 Generalised System of Preference:**

### **A Review of Literature..... - 15 -**

2.1	Introduction .....	- 15 -
2.2	Background to preferential trade in the UK .....	- 20 -
2.3	Development of Trade and Political Theory .....	- 21 -
2.4	Global trade and how it interlinks .....	- 22 -
2.5	The political aspects of preference trade .....	- 23 -
2.6	Utilization of preferences accessing the EU .....	- 24 -
2.7	Environment .....	- 27 -
2.8	Protected Markets .....	- 29 -
2.9	Lesser Developed Countries' View .....	- 30 -
2.10	Donor Country - Importers .....	- 31 -
2.11	Critical Literature Review .....	- 32 -
2.11.1	Why is there limited research in relation to importers? .....	- 33 -
2.12	GSP Utilization issues .....	- 34 -

2.12.1 Country of origin/Rules of origin .....	- 34 -
2.12.2 Graduation .....	- 37 -
2.12.3 Documentation and Costs .....	- 39 -
2.12.4 Lack of Knowledge.....	- 40 -
2.12.5 Transaction costs.....	- 41 -
2.12.6 Lobbying .....	- 41 -
2.13 Does the GSP scheme work or should another method be used, i.e. Aid? .....	- 42 -
2.14 Changes to the GSP Scheme .....	- 43 -
2.15 Reforming GSP in the interests of the poorest .....	- 46 -
2.16 Brexit .....	- 46 -
2.17 Gap in knowledge .....	- 48 -
2.18 Conclusion .....	- 49 -

## **Chapter 3 Methodology..... - 51 -**

3.1 Introduction.....	- 51 -
3.2 Research Philosophy/Methodology .....	- 52 -
3.2.1 Research Philosophy .....	- 53 -
3.2.2 Epistemological Orientation .....	- 53 -
3.2.3 Empiricism .....	- 54 -
3.2.4 Interpretivism .....	- 54 -
3.2.5 Realism.....	- 55 -
3.2.6 Ontological Orientations.....	- 56 -
3.2.7 The research philosophy undertaken within the research.....	- 57 -
3.3 Research Approach .....	- 58 -
3.3.1 Research Approach .....	- 58 -
3.4 Research Strategies .....	- 59 -
3.4.1 Research Design. ....	- 60 -
3.5 Time Horizons.....	- 61 -
3.5.1 Research data .....	- 61 -
3.6 Data Collection Methods .....	- 62 -
3.6.1 Semi-structured interviews.....	- 62 -
3.6.2 Ethics approach .....	- 63 -
3.6.3 Statistical Method.....	- 65 -
3.7 Results.....	- 66 -

3.8 Development of questions.....	- 67 -
3.9 Development of hypothesis.....	- 68 -
3.10 Dimensions of performance .....	- 70 -
3.10.1. The performance evaluation.....	- 70 -
3.10.2. Modelling the performance evaluation determinants .....	- 73 -
3.10.3 Historical data - Generalised System of Preference Comparisons of usage since 1970 .....	- 74 -
3.10.4 UK importers interviews - Generalised System of Preference Utilization, Company Interviews and qualitative evidence. ....	- 75 -
3.11 Stakeholders.....	- 77 -
3.12 Selecting the sample for analysis.....	- 77 -
3.13 UK leaving the EU (Brexit) .....	- 78 -
3.14 Summary .....	- 79 -

## **Chapter 4 Historical Data..... - 80 -**

4.1 Introduction.....	- 80 -
4.2 Developments of Generalized System of Preference since implementation....	- 82 -
4.2.1 Generalized System of Preference developments 1970-1980.....	- 83 -
4.2.2 Generalized System of Preference developments 1980-1990.....	- 88 -
4.2.3 Generalized System of Preference developments 1990-2000.....	- 89 -
4.2.4 Generalized System of Preference developments 2000-2017.....	- 92 -
4.3 Summary of main issues identified.....	- 94 -
4.3.1 1970-1980.....	- 95 -
4.3.2. 1980-1990.....	- 96 -
4.3.3. 1990-2000.....	- 97 -
4.4. Quantitative Analysis .....	- 98 -
4.4.1. Erosion of GSP due to the use of MFN .....	- 98 -
4.4.2. Measure of utilization of GSP.....	- 106 -
4.5. Conclusion of the Qualitative results. ....	- 109 -
4.6. Conclusion of the Quantitative results .....	- 111 -
4.7 Overall conclusion.....	- 112 -

<b>Chapter 5 UK Importer's Interviews .....</b>	<b>- 116 -</b>
5.1 Introduction .....	- 116 -
5.2. Approach to analysis of Generalised System of Preference issues .....	- 120 -
5.4 Analysis of single questions .....	- 122 -
5.4.1 Remote from the EU GSP process .....	- 122 -
5.4.2 Changes in HM Revenue and Customs .....	- 125 -
5.4.3 GSP used as a Protectionist Tool .....	- 126 -
5.4.4 Issues of using Agents .....	- 128 -
5.5 Analysis of sub questions groupings .....	- 130 -
5.5.1 Administration .....	- 131 -
5.5.2 Does the country of origin have an impact on utilization? .....	- 132 -
5.5.3 Cost of administration of GSP an issue? .....	- 135 -
5.5.4 Is the level of documentation for the importers an issue under GSP? .....	- 137 -
5.5.5 Is the level of documentation for the suppliers an issue under GSP? .....	- 139 -
5.5.6 How do you think the administration barrier could be removed? .....	- 141 -
5.6 Knowledge .....	- 142 -
5.6.1 Do you think smaller/medium companies have a knowledge barrier with regards to how to apply for preference? .....	- 142 -
5.6.2 Is there an issue in relation to education of suppliers? .....	- 145 -
5.6.3 Do you use Europa as a source of knowledge? .....	- 148 -
5.6.4 Do you follow the trade agreements? .....	- 150 -
5.6.5 Do you feel that larger companies have an advantage with regards to being able to afford the utilization of preference? .....	- 152 -
5.6.6 Is there lobbying for GSP carried out by larger companies? .....	- 154 -
5.7 Cost Implications .....	- 155 -
5.7.2 Is there an issue in relation to penalties issued? .....	- 159 -
5.7.3 Is GSP treated as a bonus? .....	- 161 -
5.7.4. Is GSP included in the main plan? .....	- 162 -
5.7.5. Is cost a consideration above quality? .....	- 164 -
5.8 Governance .....	- 165 -
5.8.1. Is there an issue of the use of the ethical approach when providing GSP? .....	- 166 -
5.8.2. Is corruption an issue in relation to suppliers from LDC? .....	- 168 -
5.9 Graduation .....	- 169 -
5.9.1. Is graduation an issue? .....	- 169 -



5.9.2. Has graduation been replaced by another trade agreement?.....	- 172 -
5.9.3. Is there an issue with the removal of different layers of GSP i.e. GSP+? ....	- 173 -
5.10 Move from GSP to FTA.....	- 174 -
5.10.1. At the moment there is a move from GSP to Free Trade Agreements.....	- 175 -
5.10.2. The Free Trade Agreements customs documentation is similar to GSP....	- 177 -
5.11 Summary .....	- 178 -
5.11.1. Single questions.....	- 179 -
5.11.2. Administration Issues .....	- 181 -
5.11.3. Availability of knowledge .....	- 181 -
5.11.4. The application of costs in relation to GSP.....	- 182 -
5.11.5. Governance Results .....	- 182 -
5.11.6. GSP Graduation.....	- 182 -
5.11.7. Move from GSP to FTA.....	- 183 -
5.11.8 Summary of data.....	- 183 -
5.12 Conclusion .....	- 185 -

## **Chapter 6 Brexit..... - 187 -**

6.1 Introduction .....	- 187 -
6.2 Brexit .....	- 188 -
6.3 Interview results.....	- 189 -
6.4 Will the UK be at a disadvantage as a member of the global economy? .....	- 193 -
6.5 Will the UK improve as a global economy? .....	- 194 -
6.6 Will EU customs law be transferred into UK customs law?.....	- 196 -
6.7 GSP to continue and to be improved .....	- 197 -
6.8 Increased cost to UK business.....	- 198 -
6.9 UK has two years, from date article 50 is triggered is too short, transitional period required.....	- 200 -
6.10 Uncertainty within UK business with regards to Brexit.....	- 203 -
6.11 Other Issues .....	- 205 -
6.13 GSP in relation to UK Trade Policy .....	- 208 -
6.14 Conclusion .....	- 209 -

<b>Chapter 7 Interpretation of the Evidence.....</b>	<b>- 211 -</b>
7.1 Introduction .....	- 211 -
7.2 Analysing the utilization issues .....	- 212 -
7.2.1. (T1) Uncertainty of Politics within GSP Trade Policy .....	- 214 -
7.2.2. (T1) Uncertainty of Politics within GSP Trade Policy - implications of the findings .....	- 215 -
7.2.3. (T2) Lack of Awareness .....	- 217 -
7.2.4 (T2) Lack of Awareness - implication of the findings .....	- 218 -
7.2.5. (T3) Understanding of technicalities .....	- 220 -
7.2.6. (T3) Understanding of technicalities - implication of the findings .....	- 221 -
7.2.7. (T4) Erosion in preferences.....	- 224 -
7.2.8. (T4) Erosion in preferences - implication of the findings .....	- 225 -
7.2.9. (T5) Cost of application .....	- 225 -
7.2.10. (T5) Cost of application – implication of the findings .....	- 226 -
7.2.11. (T6) Complexity of the RoO.....	- 228 -
7.2.12. (T6) Complexity of the RoO – implication of the findings .....	- 229 -
7.2.13. Summary of interpretation of the six themed results.....	- 230 -
7.3. Interpretation of findings in relation to MFN, UK GSP and Total eligible trade (Section 4.4).....	- 233 -
7.4. EU GSP utilization, 2013 and 2014.....	- 235 -
7.5. GSP utilization for 1976 – 2014.....	- 235 -
7.6. Brexit .....	- 236 -
7.7 Evaluation of hypotheses .....	- 237 -
7.7.1 The approach undertaken to justify the three hypotheses .....	- 237 -
7.8 Research covering the objectives .....	- 238 -
7.8.1 To justify the issues in relation to the utilization of EU GSP .....	- 238 -
7.8.2 To research the issues of EU GSP from the importers view .....	- 239 -
7.8.3 To use quantitative data to establish the impact of MFN on the use of EU GSP- 240 -	
7.9 Contribution to knowledge.....	- 240 -
7.10 Conclusion.....	- 241 -

<b>Chapter 8 Conclusion .....</b>	<b>- 243 -</b>
8.1 Introduction .....	- 243 -
8.2 Generalised System of Preference Policy .....	- 244 -
8.3 EU GSP application issues from 1971 – 2014.....	- 244 -
8.4 Conclusion of EU GSP application issues from 1971 – 2014 .....	- 249 -
8.5 Conclusion regarding impact of findings in relation to MFN, UK GSP and Total eligible trade .....	- 250 -
8.6 Conclusion in relation to the issue of utilization of EU GSP.....	- 250 -
8.7 Conclusion of hypotheses.....	- 251 -
8.8 Impact of the UK leaving the EU (Brexit) in March 2019 .....	- 251 -
8.9 Views on the Brexit issue .....	- 252 -
8.10 Conclusion of views in relation to Brexit. ....	- 255 -
8.11 Overall conclusions.....	- 256 -
8.13 Future Research .....	- 260 -
8.13.1 Limitations of the sample selection .....	- 260 -
8.13.2 Scope for future research.....	- 261 -
<b>References.....</b>	<b>263</b>
<b>Appendix 1 Expansion of the European Union .....</b>	<b>277</b>
<b>Appendix 2 Interviewee Question Analysis.....</b>	<b>278</b>
<b>Figures.....</b>	<b>XI-XIII</b>
<b>Tables.....</b>	<b>XIV</b>
<b>Glossary.....</b>	<b>XV</b>
<b>Abstract.....</b>	<b>XVI</b>

## **Figures Page Number**

<b>Figure 2.1</b>	<b>Dates of Countries introducing GSP .....</b>	<b>18</b>
<b>Figure 2.2</b>	<b>Flow of goods using rules of origin .....</b>	<b>35</b>
<b>Figure 3.1</b>	<b>Research Onion.....</b>	<b>52</b>
<b>Figure 3.2</b>	<b>Ontology Interpretations Giaretta and Guarino (1995) .....</b>	<b>56</b>
<b>Figure 3.3</b>	<b>Progression of theory and research. Fawcett &amp; Downs (1986) .....</b>	<b>60</b>
<b>Figure 3.4</b>	<b>Ethics approach Source:- Smith (2003), p97 .....</b>	<b>64</b>
<b>Figure 4.1</b>	<b>UK International Trade Compared to UK MFN imports and to UK GSP Imports 2000-2014 .....</b>	<b>100</b>
<b>Figure 4.2</b>	<b>UK International Trade, MFN Zero, GSP and Non-Zero UK Imports, Inflation Adjusted .....</b>	<b>102</b>
<b>Figure 4.3</b>	<b>UK International Trade, MFN Zero, GSP and Non Zero UK Imports, Inflation and Exchange rate Adjusted .....</b>	<b>103</b>
<b>Figure 4.4</b>	<b>Percentage of Preference Schemes in relation to Total Eligible Trade for the UK.....</b>	<b>104</b>
<b>Figure 4.5</b>	<b>EU GSP utilization 2013 and 2014 (in Euro's).....</b>	<b>106</b>
<b>Figure 4.6</b>	<b>EU GSP utilization 2013 and 2014. (USD dollars) .....</b>	<b>107</b>
<b>Figure 4.7</b>	<b>Total GSP Utilization Percentage for 1976, 1996 and 2014.....</b>	<b>108</b>
<b>Figure 5.1</b>	<b>GSP Utilization categories for investigation .....</b>	<b>119</b>

<b>Figure 5.2</b>	<b>Analysis of group subject answers .....</b>	<b>121</b>
<b>Figure 5.3</b>	<b>Analysis of Administration Issues .....</b>	<b>131</b>
<b>Figure 5.4</b>	<b>Availability of Knowledge .....</b>	<b>142</b>
<b>Figure 5.5</b>	<b>Application costs of GSP.....</b>	<b>156</b>
<b>Figure 5.6</b>	<b>Consideration of Governance .....</b>	<b>166</b>
<b>Figure 5.7</b>	<b>GSP Graduation .....</b>	<b>169</b>
<b>Figure 5.8</b>	<b>Move from GSP to FTA .....</b>	<b>174</b>
<b>Figure 5.9</b>	<b>Sub-Questions Results Summary .....</b>	<b>180</b>
<b>Figure 6.1</b>	<b>Interviews in relation to Brexit time line .....</b>	<b>188</b>
<b>Figure 6.2</b>	<b>Interview comments on Brexit .....</b>	<b>193</b>
<b>Figure 7.1</b>	<b>Interview questions grouped within the six themes .....</b>	<b>213</b>
<b>Figure 7.2</b>	<b>Uncertainty of Politics in relation to interview Data .....</b>	<b>214</b>
<b>Figure 7.3</b>	<b>Lack of Awareness in relation to interview data .....</b>	<b>217</b>
<b>Figure 7.4</b>	<b>Understanding of technicalities in relation to interview data .....</b>	<b>221</b>
<b>Figure 7.5</b>	<b>Erosion in preferences in relation to interview data .....</b>	<b>224</b>
<b>Figure 7.6</b>	<b>Cost of application in relation to interview data .....</b>	<b>226</b>

<b>Figure 7.7</b>	<b>Complexity of RoO in relation to interview data .....</b>	<b>228</b>
<b>Figure 7.8</b>	<b>Average results of Themes to Interview Questions.....</b>	<b>232</b>

<b>Table Number</b>		<b>Page</b>
<b>Table 3.1</b>	<b>Allocation of six coded themes developed from historical data to subject themes covered in the interviews</b>	<b>72</b>
<b>Table 4.1</b>	<b>Percentage of GSP eligible trade to EU imported trade</b>	<b>108</b>

## Glossary

ACP	African, Caribbean and Pacific Group of States.
AEO	Authorized Economic Operator.
Brexit	Britain exiting the EU membership.
CoO	Country of Origin.
EC	European Community.
EEC	European Economic Community.
EFTA	European Free Trade Association.
EU	European Union.
FTA	Free Trade Agreement.
GATT	General Agreement on Tariffs and Trade.
GSP	Generalized System of Preference.
HMRC	H M Revenue and Customs.
JCC	Joint Consultative Committee
LDC	Lesser Developed Countries.
MFN	Most Favoured Nation.
OECD	Organization for Economic Co-operation and Development.
PTA	Preferential Trade Agreement
RoO	Rules of Origin.
SAD	Single Administrative Document.
T	Theme
UK	United Kingdom.
UNCTAD	United Nations Conference on Trade And Development.
USA	United States of America.
WCO	World Customs Organisation.
WTO	World Trade Organisation.



## **Abstract**

The research presents an investigation into the issues affecting UK importers when applying European Union's Generalised System of Preference (GSP). It focuses on issues affecting UK importers applying European Union's Generalised System Preference (GSP). GSP is used to encourage importation of goods from developing and lesser developed countries (LDC), by reducing importation tariffs when goods cross an EU border. This allows access to the EU market for lesser developed countries and thus enabling their economies to grow through trade. Krugman (1987).

This thesis considers historical data to establish the main issues that influence the utilization of GSP; including application of GSP, academic theory in relation to the use of GSP and other preferential trade agreements such as Most Favoured Nations (MFNs). The data obtained from the primary source of semi-structured interviews of UK importers, trade associations and leading consultants was statistically evaluated to establish links between the data sources.

The research provides an in-depth analysis of the issues in relation to the utilization of the preference with regards to UK importers. It shows, significantly, that the academic assumption of using MFNs instead of GSP not having impact on the utilization as previous academic knowledge suggested. The interviews provided data with regards to the UK business view on Brexit and UK trade policy after March 2019, when the UK leaves the European Union.

The thesis supports the idea that Brexit has opened up an opportunity for UK government to review its trade agreements, including the application of GSP. GSP is a non-reciprocal trade arrangement and can be used initially until free trade agreements, which are reciprocal can be put in place. Brenton (2003). Findings from the research highlights how the UK government would benefit from making GSP simpler for UK importers to apply and expand its beneficiaries.

# **Chapter 1 Introduction**

## **1.1 Introduction**

The UK has expanded its trade dramatically over the last 20 years and now imports goods from outside the EU, thus incorporating the global supply chain within their normal business. McAdam & McCormack (2001). UK importers have been encouraged by the EU to expand their global supply chain by providing a preferential trade scheme, called Generalised System of Preferences (GSP). This allows the export of goods from lesser developed countries (LDCs) to access the EU market, the importer pays a reduced or zero rate importation tariff. The LDC goods are more attractive to EU importers due to the reduction in tariff. As well as, using GSP the EU have also negotiated free trade agreements (FTA)s with many developing countries to allow goods to enter the EU at reduced tariff rates or in some cases for zero tariff to be applied. Townsend (2008). Some of these trade agreements are known as most favoured nation (MFN)s. These agreements have been argued to be simpler than GSP and therefore importers have been using MFNs when a developing country are eligible for both. Nilsson and Matsson (2009). However, the EU has many FTAs currently being negotiated which are not yet implemented. The EU has withdrawn the country from the GSP country list and therefore developing country can no longer export goods under GSP or have the advantage of a FTA, as this is yet to have negotiations completed and legal ratification undertaken. Zhou & Cuyvers (2012). Thailand is an example of this, where they have been graduated out of GSP over a short time period. It was suggested to EU importers that an FTA would be replacing GSP as soon as the GSP was withdrawn. However, due to the length of the negotiations, this has yet to happen and the importers are currently either paying full import tariff or have moved its supply chain elsewhere. European Commission (2016).

The development of technology and shipping has allowed for a more efficient supply chain to operate and companies are using this to their advantage. In turn, the market has a more competitive; aggressive pricing and implement market share strategies. Lie and Santucci (1993). The expansion of the financial globalisation, has aided the expansion of the supply chain. Many governments encourage global trade as it stimulates economy growth. Trade agreements are created to encourage international

trade to develop by providing preferential tariffs between countries. It is seen as a positive action by the World Trade Organisation (WTO), which has provided a declaration adopted by WTO ministerial Conference, (14 November 2001), stating global trade could provide economic development within LDCs and reduce poverty. Commission of European Communities (2004). The Commission of European Communities (2004), also stated that the improvement should not be measured with regards to trade alone but should also consider the environment, social conditions, anti-corruption measures and governance. The EU has developed its network of bilateral trade agreements and these have contributed to the EU to become the world's largest importer and exporter in 2010. The EU is seen as a major contributor for governance of international trade. Young and Peterson (2013). The EU has used preferential trade agreements to enhance trade with LDCs, and also to comply with the WTO declaration of economic development to reduce poverty. The main preference it has adopted is the Generalised System of Preference scheme. (GSP). Sancho (2006).

The GSP scheme is a non-reciprocal system of preference and is promoted to LDCs to increase export earnings, promote industrialisation and to accelerate economic growth. Whilst promoting trade with the LDCs it will have an impact on the domestic market of the donor. Hoekman et al (2009). A developing country can be included on the EU GSP donor list, however, the EU can implement its own terms and conditions which can be argued, are designed to protect its domestic market. An example is graduation which is used to exclude products or countries from the GSP scheme. Weston et al (1980). It has been argued the Rules of Origin is a form of a protection tool for the donor country and been highlighted as a political issue. This is a leading issue for many years and the WTO failed to negotiate for harmonisation of non-preferential rules of origin in the Uruguay Round Agreement (GATT 1994), as the rules of origin are very complex. James (2006).

Donor countries wish to protect their own markets, one way to do this is for the donor governments to remove GSP system if the exports get too high. Özden & Reinhardt (2005). The EU uses the method of graduation in relation to the imports once a certain level of duty-free are within limits of predetermined amounts. An example of this; GSP goods reach the limits of the ceilings or quotas, set by the EU, the European Union customs tariff are resumed. Commission of the European Communities (1976). Leading on from this, the rules of origin highlighted in the following section has become a political

issue. There is the suggestion that it provides a protection of trade to the importing countries. It has become a leading issue and the WTO failed to negotiate for harmonisation of non-preferential rules of origin in the Uruguay Round Agreement (GATT 1994). This highlights the complexity of the rules of origin but illustrates the need to retain autonomy among the contracting members; to maintain autonomy so protection can be maintained of their industries. There was a refusal even of negotiating the issue of harmonisation of the preferential rules of origin. James (2006).

However, although the EU incorporated the GSP scheme in 1971, the UK at that point had not become a member of the EEC. The UK had incorporated the GSP scheme since its inception in 1971 and adopted the EEC GSP scheme when the UK became a member in 1974. Therefore the UK had adopted the GSP scheme before entering the EU and was incorporated within UK trade law and international trade policy. Langhammer (1983). This fact is explored more within the thesis in relation to the UK trade policy after it leaves the EU in March 2019.

## **1.2 Purpose of the study**

The focus of the study is to examine the issues that UK importers have when they apply the EU GSP scheme, for eligible UK imports. To examine the effect of UK goods imported under MFNs and the utilization of UK GSP. The initial approach was to research the academic literature to with regards to UK importers GSP utilization. The literature review of the academic knowledge in chapter 2 highlighted the gap in the knowledge in relation to the following two issues:-

- The UK importation utilization of GSP.
- Effect of the Most Favoured Nations trade agreements on GSP utilization.

The final research hypotheses were developed from the literature review findings:-

H1 *“The use of GSP has not been fully utilized since its inception.”*

H2 *“Most Favoured Nations (MFN) trade agreements have a negative effect on the utilization of GSP”*

H3 *“Complex rules have prevented the application of GSP.”*

The following objectives of the thesis is to:-

1. Evaluate the policy making process of the GSP over its implementation of forty six years to establish if it could be improved.
2. The issues in relation to the application of GSP from UK importers point of view.
3. To investigate academic assumptions with regards the use of other trade agreements for example Most Favour Nations, (MFN)s rather than GSP.
4. To provide recommendations with regards the UK leaving the EU and having to negotiate its own trade policy.

### **1.3 The Development of the Study**

The PhD research was undertaken to explore, in depth, the objectives shown in 1.2 and the effects on UK importers. The development of the study in relation to these objectives reviewed the literature and historical academic data in relation to how the GSP was first implemented. The political issues that have influence the GSP scheme and how the EU has incorporated its trade policy in relation to providing preferential trade to developing and LDC economies while protecting its own domestic market. This has proved to an effective way of understanding the policy making process of the EU GSP. It has led to a platform of which recommendations can be made with regards the UKs renegotiation of its own trade policy when it leaves the EU.

The thesis researches the issues that relate to the utilization of the GSP scheme, both from the exporters and importers view. It was noted from the literature, section 2.9 and 2.10 that importers are not considered within the academic research, it is mainly the exporting LDCs that are analysed when assessing utilization of GSP. The historical data is formed from the LDC exports to the EU using UNCTAD data. Exporter's data is researched within the thesis to establish if these issues affect the utilization of the EU GSP scheme. See section 4.2.3. The importers do play an important role within the GSP trade process as they initiate the trade with the developing countries. At the point of import the importers are responsible for paying the import duty and if the GSP documentation provided by the LDC exporter is not acceptable, the importer will pay the fully duty. Brenton (2003). However, it remains the EU importers responsibility to keep the documentation for three years after import for the Customs officers to inspect. If they find any fault with the documentation then the EU importer has to repay the import duty as well as, a penalty fine. Brenton (2003). It is justifiable that the importer should play a more dominant role when researching the EU GSP process as this provides a 360 degree analysis of the preferential trade, unlike current research which investigates pronominally the impact on the exporting LDC. The study was developed to establish the importers view to the issues in relation to the utilization of GSP and its application.

The academic literature provided evidence that MFNs being used instead of GSP as the academics deemed that they are easier to apply for than GSP. It has been a main issue raised within a number of academic papers. For example:- Nilsson and Matsson (2009), Weston et al (1980), Townsend (2008) and Seyoum (2005). According to Nilsson and Matsson (2009), Weston et al (1980), Townsend (2008) and Seyoum (2005) the use of MFNs is having a direct impact on the utilization of GSP, however, while investigating these academic papers this statement was found to be made out of assumption. Therefore the thesis researched this aspect to prove if this was having an impact on GSP. The UK import trade figures, MFN trade figures and GSP trade figures were compared to establish if there was any correlation between the different trade figures. This was undertaken within 4.4.1. Erosion of GSP due to the use of MFN and the overall results were discussed in detail within 7.2, Interpretation of findings in relation to MFN, UK GSP and Total eligible trade. The MFN and GSP follow the same trend line as UK international trade, see figures 4.3 and 4.4 pages 104 and 105. The correlation between MFN and GSP of 0.9710 is a very strong positive result. It highlights that they are following the same trend pattern due to the mediatory factor of UK international trade.

This provides evidence that the academic assumption that MFN is being used in replace of GSP is incorrect. The thesis has provided significant evidence which moves the academic theory forward when addressing this issue.

While undertaking the research within the thesis, the UK voted to leave the EU, (Brexit). The UK will have to renegotiate its international trade agreements after it leaves in March 2019. These negotiations can take many years to complete as they are based on reciprocal agreements. It was established within the historical chapter of the thesis that the UK had its own GSP trade policy in 1971 before it joined the EEC membership in 1974. Weston et al (1980). The UK's GSP scheme before becoming an EU member, was more liberal than the EEC GSP scheme which was implemented at the same time in 1971. This was due to the UK importing from commonwealth developing countries and the terms of the GSP were applied to a larger product base. Iqbal and Allen (1975), Cooper (1972). See section 4.2.1 Generalized System of Preference Developments from 1970-1980.

As the GSP is a non-reciprocal agreement, it can be negotiated on a timelier basis and used as a temporary measure until the FTAs can be implemented. Therefore it has brought the GSP scheme to the fore of importance with regards to future UK trade agreements. House of Lords (2017). The findings within the research undertaken will have significant impact as they highlight issues which the UK government should address to increase the importers overall performance of GSP policy. The UK government is currently meeting regularly with the trade stakeholders to discuss the current issues UK businesses are having with various trade policies. This provides an opportunity for UK importers to address these issues directly to the UK policy makers in relation to future GSP trade. House of Lords (2017).

## **1.4 Approach to the research**

The review of the literature highlighted a gap in academic knowledge, with regards to the view of importers, when justifying the utilization of GSP. The initial research approach was to interview UK importers who use GSP; to identify issues in the aspect of the application of GSP. The interviews however, were affected by the UK referendum, (to leave or stay as a member of the EU), which took place on the 23 June 2016 (Brexit).

The interview period was from 7 June 2016 to 10 July 2017. Due to the uncertainty on how the UK is to continue with its international trade after it leaves the EU in March 2019, companies were reluctant to take part in the research. However, the researcher attended a trade stakeholder's conference at Westminster and this provided access to knowledgeable interviewees. All nine interviews undertaken with executive or senior managers who provided in depth discussion in relation to the issues of applying GSP and Brexit. The data was organised into ten common themes and the semi-structured questions were collocated within these themes. The interview data was used to support the findings from the historical research undertaken.

The referendum provided a platform for the research to examine the historical formation of GSP and its issues throughout its forty six years to understand the difficulties of implementing the GSP scheme. Once the UK leaves the EU the UK will have to renegotiate its trade agreements. BBC (2018). The research was adjusted to evaluate if GSP could be a worthwhile preferential scheme for the UK government to consider after March 2019.

## **1.5 Implementation of research**

This section reflects on the three research sources that were undertaken to provide an in depth analysis of how the importers utilization of GSP has been affected by the different issues that have evolved over the timeline of the application of the preference. The three research sources are:-

1. Historical research
2. Interview research
3. Brexit

These have reviewed with 1.5.4. Interpretation of historical, interview and Brexit findings which are reflected within 1.8 Conclusion.



### **1.5.1 Historical research**

The research period was from 1971-2014 and data was obtained from peer reviewed journals, which prominently examination of exporters data. Within this research the issues of application were assessed to establish if there were any common themes. Six themes were developed from the history of GSP and analysed. When reviewing the trade agreements and comparing the advantages the Most Favoured Nations (MFN)s with the GSP; the MFN often appears to be more advantageous than the GSP and this could be an element as to why the GSP on certain product lines has low utilization. Seyoum (2005). This is an issue that directly affects the hypothesis under investigation; “GSP is affected by the application of Most Favoured Nations (MFN) trade agreements.” Research was undertaken to analyse data to review the overall effect the use of MFNs was having on GSP. The data shows that the GSP remains constant over 2000-2014 while the MFNs fluctuated in line with the UK's total import trade. Further analysis of these results show that the GSP is following the MFN trade line. It is significant as, contrary to the academic research MFN trade does not have an impact on GSP utilization. This is discussed in detail within 4.4.1; Erosion of GSP due to the use of MFN.

The overall utilization of GSP for the UK imports were reviewed for 1976, 1996 and 2014, (2016 figures at the time of writing were not available). Analysis was used to establish the utilization and that it has risen over the time period, however, it still could be improved. See 4.4.2; Measure of utilization of GSP.

### **1.5.2 Interview research**

Nine semi-structured interviews of half to two hours were undertaken to support the findings within the historical data. These provided in depth data in relation to the issues when utilizing GSP, including Brexit. The framework of the interviews was formed from the literature review and historical data. The main structure of the interviews was developed as they progressed due to the changing situation in relation to the UK voting to leave the EU. Within 5.2 formation of the questions is provided. The semi-structure questions were developed into:-

1. Do you have an issue with keeping up with the legal knowledge and application rules?
2. Do you feel remote from the EU GSP regulators?
3. Do you think the EU are moving from GSP to FTAs?
4. Do you think GSP is being used as a protectionist tool?
5. Do you consider governance when applying for GSP?
6. Have you ever or considered using import agents?
7. Has the approach to GSP from HM Customs and Revenue changed?
8. Has graduation been a problem?
9. Do you find the administration an issue, in particular compliance with the rules of origin?
10. Is the cost of application an issue?
11. What is your view on Brexit?
12. Do you think that the UK will reflect the 1971 GSP trade agreement?

While these were the main subject questions there are another 17 sub-questions that the transcripts were analysed and coded for within the main subject questions above to provide a more detailed analysis of the issues. Sections 5.4 to 5.10 show in detail the result of the sub-questions and this analysis highlights clearly the main issues that importers are having at the time of writing, March 2018, with regards to the application of GSP. Within figure 5.9 page 180, Sub-Questions Results Summary, showed the four following sub-questions provided the highest result of 89 percent (all except one).

1. Complexity of country of origin/rules of origin has an impact on GSP application
2. Smaller companies are disadvantaged due to lack of knowledge
3. Cost of employing staff
4. EU currently moving from GSP to Free Trade Agreements

The four issues have highlighted the main concerns that UK importers have with GSP and they are supported within the academic literature and the historical data.

### **1.5.3 Brexit**

When the research framework was being developed Brexit was not considered as the UK government had yet to set a date for the referendum. The referendum on the 23 June 2016 took place after the first three interviews were undertaken. Due to the referendum result of the UK is to leave the EU, Brexit has become an important issue within UK trade policy as a consequence of the result. The research was provided the opportunity to gather data from leading UK importers with regards to their views on how the GSP scheme could be improved also if the UK should continue with the GSP scheme after it leaves. One of the conditions when the UK leaves is the EU international trade agreements, (including GSP), will have to be renegotiated by the UK. BBC (2018). The main concern from the importers was the level of uncertainty on how the UK government was going to approach this task and when will UK business be able to trade within these agreements. This is due to trade agreements taking years to complete and the EU condition that the UK is unable to start negotiations until after March 2019. House of Lords (2017). The research provides an overview on how UK businesses are approaching international trade at the current time and their thoughts on future development. These views have been underpinned from academic and news articles, as well as, political papers from the House of Lords.

### **1.5.4 Interpretation of historical, interview and Brexit findings**

Within 7.2 the data from the historical findings and the interview findings are combined and analysed in detail, within six themes. (The theme headings were formed from the historical data). T1 uncertainty of politics, (T= theme), the non-reciprocal terms for GSP has allowed the EU to withdraw preference and this has been sighted by the importers as making them feel remote from the GSP policy making process. T2 lack of awareness, the importers felt that smaller companies may not be aware of the availability of the preference or understand the technical aspects of application. T3 understanding technicalities, importers highlighted that they had issues with suppliers not providing correct documentation as they did not fully understand the repercussions of providing copies and not original rules of origin certificates. T4 Erosion of preferences, interviewees suggested that that the EU is moving away from GSP to free trade agreements (FTA)s. T5 cost of application, the importers argued with the historical data

as they sighted that the employment of dedicated staff to administer the GSP was the greatest cost. Not the application of RoO documentation which is the main costing for exporters sighted in the academic literature. There is clearly an argument for costs to be considered as a barrier to utilization, however, as to which element is the most cost heavy should be reconsidered. T6, complexity of the RoO. While the interviewees did agree that RoO is an issue, they also highlighted that HM Revenue and Customs held the importer responsible to provide correct documentation and if the RoO is not correct then they are penalized. The overall results of these themes were averaged and the rules are shown within figure 7.8 page 232, Average results of Themes to Interview Questions. This established that the main issue was the complexity of country of origin/rules of origin.

The UK referendum has had an impact on the research undertaken and has made thesis findings more relevant due to the UK having to renegotiate its trade agreements. Within 7.6 only 56 percent felt that the UK will be able to transfer the EU trade law to the UK when leaving. Therefore the UK should consider alternatives on structuring its trade policy if the EU decides not to allow the transfer of trade law. The historical data has highlighted that the UK had its own GSP policy before joining the EEC in 1974 and it has been incorporated within UK trade law independently from the EU. This provides a footprint for the UK to utilize its own GSP when leaving the EU. Currently shown within figure 6.2 page 193:-

100 percent of the interviewees raised the issue that UK importers have with Brexit is the uncertainty on how the UK trade policy is going to be formed. A majority of interviewees wanted a transitional period due to the complexity of the Brexit agreement. However, the argument for UK to increase its global trade is split between the interviewees, some suggesting that it is a great opportunity, while others see it as a disadvantage due to the time it is going to take to negotiate international trade agreements. Also due to the current uncertainty of how the UK will trade with the EU, a number of interviewees raised concern that UKs position within the current global supply chain is already in decline. Some companies are leaving the UK and setting up within the EU allowing the supply chain to continue without the uncertainty of the UK being able to continue free trade with the EU.

## **1.6 Structure of the thesis**

The following chapter considers the academic literature to establish the gap in the academic knowledge in relation to utilization data from the importers view. Also it highlights the structure of the GSP policy and the use of MFN which impacts on the GSP usage. The third part sets out the methodology in relation to the overall approach of research undertaken. The fourth part researches the historical aspects of the application of GSP since its implementation by the UK to the current day by the EU. It investigates the issues throughout this time period and establishes six main themes to be considered with the data collected from the interviews. The impact of MFN on the usage of GSP is also analysed, along with the overall utilization of GSP for 1976, 1996 and 2014. The fifth section analyses the UK importers interviews which are undertaken to support the historical data and provide a primary source of data in relation to the application of the GSP. The sixth chapter reviews the issues of GSP trade within Brexit, using UK importers interviews to provide a snap shot view of UK business over the time period from 7 June 2016 to 10 July 2017. There are seven categories which are analysis from the interview data and discussed. The seventh chapter provides an interpretation of the evidence from the historical, interview and Brexit sections. It discusses the impact of the findings. The eighth chapter reviews the overall findings and provides a conclusion to the thesis research undertaken and considers the overall future of the GSP scheme.

## **1.7 Contribution to Knowledge**

The contribution to knowledge has been unique as the thesis is the first to research GSP utilization within the complex global environment pacifically in relation to the UK. It is distinctive as it examines the trade issues, prior to leaving the EU, the process of the UK leaving the EU and how GSP may be used by the UK trade policy after it leaves the EU. The thesis establishes theatrical understanding in relation to the application of GSP preferential tariffs at a crucial time within UK trade history. It furthers academic knowledge, which can be used by GSP donor countries to enhance their own GSP policy. The contribution to MFN versus GSP theory has been significant due to the knowledge gained from using the combination of contemporary and historical data. This was combined with a number of disparate sources and developed into one theme. The

contribution of which, has strengthened the argument that MFN is not having an impact on GSP. It further establishes that theory of using preference is to the advantage of the donor and LDC markets. See section 8.12.

The contribution to the protectionist theory has been to establish through historical and current data that the current EU GSP scheme is of a protectionist nature. See section 8.12.

The theory of preference utilization has been significant in relation to the UK. This is due to the unique contribution of examining UK preferential trade theory before Brexit and during Brexit process by processing data from UK importers. This has provided a platform of preferential trade post Brexit. The contribution to knowledge has highlighted the chaos affecting UK business during this time. This has resulted in furthering the knowledge by showing that the theory of preference utilization should consider both the LDC and importers view. See section 8.12.

There is also the policy element of GSP which has been impacted by the thesis. The EU GSP policy has been shown from the contribution of UK importers data that policy changes have a direct impact on UK importers. The contribution to knowledge has found that EU GSP is very complex and does not allow UK importers to utilize GSP to its full potential. The impact of this contribution is for the UK GSP policy when developed after Brexit should provide a less complex application process to enable better access for the UK importer. See section 8.12.

The thesis provides a foundation for future academic work to be developed from the research. It is acknowledged that the thesis has added to academic knowledge and contributes to both academic theory and policy.

## **1.8 Conclusion**

The GSP provides an integral tool for the LDCs and developing countries to be a part of the global supply chain. However, it has been argued within the academic literature that as this is a non-reciprocal trade agreement, the donor countries used it to benefit their economy, by encouraging cheaper imports. By creating complex legislation, the donor countries have been accused of being protectionists, as they have applied quotas and ceilings on certain goods which when achieved, these products are graduated out of the GSP scheme. This provides a degree of uncertainty with the application of the GSP policy as it can be removed. Zhou & Cuyvers (2012). Although the utilization at 2014 was at 75 percent, figure 4.7 page 107, there is still an argument that this should be increased as the volume of trade is significant and the value of import tax being forfeited by EU importers is high.

The thesis has set out to establish the issues that have been suggested for the underutilization of GSP over its forty six year history. The research has analysed the issues that UK importers have when applying the GSP scheme. It combined both the history and UK importers interview data to provide an overall analysis of the main issues, along with an investigation of the impact of MFNs on the utilization of GSP. Brexit has provided the UK with the unique opportunity to implement its own GSP scheme.

## **Chapter 2 Generalised System of Preference: A Review of Literature**

### **2.1 Introduction**

The chapter is structured to provide an insight into some of the many issues that relate to the Generalised System of Preferences and how these issues affect the utilization of GSP. There are a number of countries which provide GSP and some of the issues are common to all these GSP systems and are reflected within the chapter. At the beginning of the chapter the more general issues are investigated leading onto more specific issues, which provide academic support in relation to the direction of the research undertaken within chapters 4 and 5. The UK leaving the EU is considered as it will have a direct impact on international trade agreements and the UK will have to renegotiate new trade agreements, including GSP. Section 2.16 provides an academic view in relation to discussions on Brexit in chapter 6.

A number of academic investigations will be considered to try and establish the current academic view regarding any issues with the utilization of trade preferences, in particular, the use of Generalized System of Preference (GSP). The main context will be European GSP; however, other countries using the GSP system will also be included.

Globalisation of trade has been a process that has gone on for many century's. Since the start of the twentieth century there has been an expansion of the capacity to trade more easily over greater distances. With the development of the shipping freight container system transportation is more effective and enables goods to be delivered in a relatively short space of time with minimal personnel. Along with the development of technology, trade has now become a more accessible global process. Chesnais (1993).

Many manufacturers are now able to take advantage of the trade globalisation by manufacturing parts in different countries and bringing them together to complete the final product. This can be known as fragmented manufacturing. Globalisation offers multinational organisations an opportunity to distribute worldwide the research and design, marketing and manufacturing processes; providing many different national



locations. It allows a good source of key technological and intermediate product inputs and enables real time, global profit-creating activities. Chesnais (1993). It has led to the boundaries of a firm becoming blurred, for example they do not have a single objective function. They have become multinational, well financed and vertically integrated manufacturers. Therefore, the market is more competitive with aggressive pricing and market share strategies. Lie and Santucci (1993).

Over the recent decades many academics have been writing about globalisation of trade and many factors have been identified as driving globalisation forward. Sustained product capacity and the liquid assets of the late 1980s early 1990s helped to make this situation possible. Due to the high growth and inflationary policies followed by most governments at the time. The large US federal department also helped to motivate the financial globalisation and the money markets by encouraging the uptake of new technology. Chesnais (1993).

Due to the expansion of financial globalisation many governments want to encourage physical trade between countries. This helps to strengthen their economies and further the trading links already in place. Trade agreements are created to enable trade to progress and develop and some argue that it has allowed economies to trade their way out of poverty. Panagariya (2002). This is highlighted by a declaration adopted by WTO ministerial Conference, 14 November 2001, which stated that international trade could provide a large impact in providing economic development and reduction of poverty. Stevens and Kennan (2004). However, development is not just measured in the amount of trade, but also considers the environment, social conditions, anti-corruption measures and governance. Commission of European Communities (2004).

There have been many trade agreements made between countries to enable the growth of trade and the European Union is no exception. The EU has a large network of bilateral trade agreements formed over many years. This enabled the EU to become the world's largest importer and exporter in 2010, after the financial crises of 2008. Therefore, it is understandable that the EU contributes a major part to the governance of international trade. Young and Peterson (2013)

The World Trade Organisation has, in part, encouraged trade agreements which enhance trade with Lesser Developed Countries (LDC). There have been many

agreements, reciprocal and non-reciprocal, which have deemed to encourage such trade. The Most Favoured Nations (MFN) have liberalised trade and this has had a direct impact on the value of trade preferences and continues to reduce the impact that trade preferences have previous had. Inama (2003). The erosion of trade preference by MFN trade agreements which, have reduced tariffs has been considered by many academics and is a continuing subject of investigation. Townsend (2008), Seyoum (2005).

The preferential trade agreements consider tariff reductions on identified goods and are available to LDCs who can satisfy certain criterion set out by the importing nation. The EU has granted GSP schemes to developing countries which must be compatible with the Doha Development Agenda. The main priority is to help the developing countries benefit from globalisation by linking trade and sustainable development. Commission of European Communities (2004). One, well established, preferential trade agreement is the Generalised System of Preference (GSP). This has been favoured by countries to both increase trade with the LDCs and appease the WTO requirement of reducing poverty through trade. Europe and the United States are the two largest providers of GSP schemes with Japan, Canada and Australia also using the system. Figure 2.1 page 18, shows a list of Countries providing a GSP scheme, along with dates of starting. Smaller countries are also applying GSP for example, Norway, Switzerland, and New Zealand. Aiello, et al (2010). The GSP framework was developed at The United Nations Conference on Trade and Development (UNCTAD) in 1968 with Europe undertaking GSP in 1971 and shortly later, in 1974, the US. McQueen (2007). These remain the two main trade markets for developing countries. Hoekman, et al (2009). Originally the intention of the EU was to use the system of generalised preferences as a tool to encourage trade with developing countries and facilitate their economic development by applying the GSP to industrial products (manufactured and semi-finished). Initially GSP started its process at a meeting of GATT, in Geneva, May 1963. A second meeting was held in 1968 of UNCTAD in New Deli. The EU put forward and agreement secured with regards to the principle of a system of generalised system of preference. It took a further two years for the UNCTAD to agree the elements which form the current framework of the GSP. Commission of the European Commission (1976). Moving further on in time the EU has concerned itself with the balance of the development through trade and the development of industrialisation. This incorporates this issue within the rules of origin. Commission of the European Communities (2004).

**Figure 2.1 Dates of Countries introducing GSP**

<b>Country</b>	<b>Date of Introduction</b>
UK	1 January 1971
European Community/EEC	1 July 1971
Japan	1 August 1971
Norway	1 October 1971
Denmark	1 January 1972
Finland	1 January 1972
Ireland	1 January 1972
Sweden	1 January 1972
New Zealand	1 January 1972
Switzerland	1 March 1972
Austria	1 April 1972
Australia	1 January 1974
Canada	1 July 1974
United States of America	1 January 1976

Australia was brought into a special preference system in July 1963, and this was replaced on 1 January 1974 with a wider scheme which is more in line with the generalised system scheme. Source:- Commission of the European Communities (1976).

GSP is a non-reciprocal preference and therefore some may say that the preference will just benefit the importers rather than the exporters. There are many rules and regulations which the exporters have to follow which could be deemed as a trade protection barrier. Johnson (1967) highlighted that non-reciprocal preferences would fail if protectionist trade policies are allowed to be active. It is noted that the development of GSP marks a turning point in international commercial relations which previously have been governed by Most-Favoured-Nation treatment which uses the rule of reciprocal concessions. Commission of European Communities (1976). Due to GSP being unilateral the US has lobby groups, representing importers, which have become so effective that it could be seen as the last stand of a truly unregulated form of protectionism of the USA. Hudec (1987). As GSP has developed there are issues that have arisen which have led to

criticism of the preference. There is concern that although the preference is an efficient way of helping developing countries, the LDCs, producers have to compete with the domestic producers in the donor country, as well as competition from other exporters. Hoekman et al (2009). However, while there is still the argument that non-reciprocal arrangements can be problematic GSP remains a leading preference contributing to the preferential market access. So why continue with GSP when there are other trade agreements available which are reciprocal and could provide a more solid market access base? This is a question which a number of academics have raised and tried to answer. Panagariya (2002).

As GSP is a non-reciprocal trade agreement and can be set up as a temporary trade agreement with LDC's. Özden & Reinhardt (2005), Zhou & Cuyvers (2012), Grossman & Skykes (2004). Donors have the advantage of increasing trade with developing countries while protecting their domestic markets. Section 2.8, Melchior (2005), Krueger (1993), Orbie (2008), Sancho (2006). Reciprocal agreements take a number of years to negotiate and at times GSP has been removed with the prospect of a FTA being put in place. Unfortunately in some cases the FTA has not evolved due to political differences and the trade collaboration no longer has a FTA or GSP and the donor has to pay full import tariff. Thailand and Brazil are good examples of this situation. Young and Peterson (2013), Siles-Brügge (2014). The impact of the research is becoming more prominent as GSP has come into focus due to the UK leaving the EU in March 2019. The issue of free trade agreements and how they are to continue after the UK leaves is of great significance to UK business as it has direct impact in import tariff costs. The EU has stated that the UK is unable to negotiate trade agreements before it leaves the EU. BBC (2018). This has provided an issue of timing as free trade agreements can take a number of years to negotiate as they are reciprocal. House of Lords (2017). However, unlike the free trade agreements GSP is non-reciprocal and could be used as a temporary agreement until the free trade agreements are put in place. This will allow UK importers to continue to be cost effective and competitive in the global market. House of Lords (2017).

GSP is being extensively used within the global supply chain and is currently operational in a least 10 donor countries:-

Australia  
Belarus  
Canada  
European Union  
Japan  
New Zealand  
Norway  
Russian Federation  
Switzerland  
United States of America

UNCTAD (2015).

Currently 184 beneficiary countries using are able to utilize GSP. UNCTAD (2015).

## **2.2 Background to preferential trade in the UK**

The UK became industrialised early in the 19<sup>th</sup> Century and started to develop free trade. However, logistics of goods were restricted during world war one and the UK started to introduce tariffs on luxury goods. Later, the UK developed a commonwealth preference scheme; this came in the form of a preferential tariff scheme covering UK exported/imported manufactured goods, food and raw materials. 1950 trade figures show the UK commonwealth preferential trade accounted for 38 percent of exports and 40 percent of import trade, across the commonwealth. This decreased over time due to the British colonies gaining independence and becoming industrialised in their own right. They, in turn, started to raise their own tariffs on imports and this reduced the British preference. Britain saw a reversal of trade in certain industries, for example, Hong Kong increased exports of cotton textiles to Britain. This had a big impact on Britain's domestic market. The UK looked to the EU and after the third attempt was accepted as member in 1974. During 1971 the EU agreed to incorporate the Generalised System of Preference. The UK took advantage of GSP, but it had to forgo the commonwealth

preferential trade. The Most Favoured Nations (MFN) rates did apply for non-EU imports. However, the UK often found that the MFN rates increased its import duties, which were previously, with the commonwealth preference, the rate was zero. Moore (1999). In 1974 when the UK joined the EEC, there were concerns that the UK GSP could be replaced with a stricter application policy under the EEC system. It was recognised that the EEC would grow and will have direct influence in relation to the development of EU GSP policy. An example is the European countries wanting to protect their domestic markets. This aspect is discussed in depth within section 2.5; the political aspects of preference trade. Iqbal and Allen (1975).

## **2.3 Development of Trade and Political Theory**

The increased use of the free trade and preferential agreements proved an issue; how to incorporate the development of free trade/preferential trade within existing trade theory. Trade theorists, Spence (1970), Dixit and Stiglitz (1977), Lancaster (1980), in the 1970s and 1980s reviewed the trade theory models to incorporate the increase of international trade. These models established that trade specialism was related to pacific countries. The geographical areas were producing a concentration of particular goods. Thus, allowing to a trade increase and international trade developing being an advantage. There developed a political theory which stated that free trade is better than no trade. Strategic trade policy investigations revealed that some industries could have higher returns by utilizing free trade. Within Economic Trade Theory, free trade has been considered as an interventionist tool used by Governments to control imports. However, a political economy could forgo intervention altogether and have free trade. Free trade could be used as a lever to avoid trade wars. There is a view that using the traditional comparative advantage is not complete without free trade. Krugman (1987). The trade theory predicted that it can be instructive, an example being that the high barriers to import LDC trade using tariffs. Thus preventing infant industries within the LCDs from having rapid growth and then in the subsequent decades this growth to fade. During the 1970s and 1980s trade barriers were lowered, encouraging trade liberalization among LDCs and exports did rise. Concluding that a free trade policy of increasing production enhances the welfare of the LDC. Pomfret (1991). The increase of world trade has been enhanced by providing trade agreements. This relates to just after the Second World War, in 1948 the General Agreement on Tariff and Trade (GATT)

developed preferential trade agreements (PTA) and from 1948-1994 over 124 PTAs were implemented. When the WTO was instigated in 1995 another 250 PTA arrangements have been developed. A large proportion of these relate to the EU. Horn et al (2010). Free trade policy has grown since the late 1990s and it has been argued that the EC has been the most active in this area. Its policy making has incorporated sustainability impact assessment and reviews the economic, social and environmental impacts of any policy change. Scheer (2009).

## **2.4 Global trade and how it interlinks**

When trying to analyse global trade and how it interlinks with the difference countries, in relation to trade agreements; there are many difficulties in trying to identify the gap that appears between the evidence available and the trade theory, when analysing the General Agreement on Tariffs and Trade. (GATT). Tomz, et al (2007), reviewed the GATT/WTO trade and how they influence the pattern of international trade. Surprisingly, they found that trade was a lot higher than previously thought. Their analysis confirmed that the two institutions increased trade, but were not able to identify between whom and the time periods over which these agreements have the most impact. The members of the GATT/WTO all appear to benefit from the two institutions and most importantly the LDCs. This is in contrast to LDCs, many of whom argue international rules provide little gain and can actually prohibit trade. There is an argument from members of the GATT/WTO that lesser developed countries can improve their economic status by exporting semi-manufactured goods to the developed countries. GSP is the most used agreement to affiliate this. From 1 July 1971, the European Community (EC) has used preferential trade to advance global trade. Due to the EC growing over the last 46 years and with further scope to enlarge (the EU is the largest importer/exporter in the world) the application of GSP has increased. There is an argument that it has enhanced global trade by allowing LDCs to have access to the EU. Commission of the European Communities (1976). The European Commission has more recently has stated that it is wanting to promote development and to eradicate poverty as a priority. The expansion of international trade should enhance the effectiveness of GSP. Commission of European Communities (2004).

## **2.5 The political aspects of preference trade**

There are many political aspects to consider with any trade agreement and GSP is no exception. Following on from the framework which was developed at The United Nations Conference on Trade and Development (UNCTAD) the General Agreements of Tariffs and Trade (GATT) formed the policy for which the preference is to undertake. When formed, GATT (1972) advocated that GSP should “Increase the export earnings, .... Promote the industrialization, and .... Accelerate the economic growth.... of recipient countries” Özden & Reinhardt,(2005). There is an issue with the GATT policy as the GSP lies outside the legal system which binds policies. The policy can be modified or cancelled at any time. This allows donor countries to withdraw GSP when the LDCs increase their export market. Özden & Reinhardt (2005).

Generalised system of preferences has been the main preference for non-reciprocal trade preferences. It was originally authorised as a temporary exception from the rules of the General Agreement on Tariffs and Trade (GATT) in 1972. The USA started using GSP from 1976. Özden & Reinhardt (2005). The EU's approach uses the operation of the system of generalised preferences as an instrument to secure improvement of the economic relationship, between the industrialised countries within the EU membership and the LDCs and developing economies. Since it promotes more value and conformity within the needs of the developed world, GSP is used as an instrument for development cooperation which is integrated within the economic policies of the EU. Commission of the European Communities (1976).

The main direction of policy makers is to increase trade as this is seen key to develop weak economies. There is no agreement, however, as to which method works the best to develop markets; unilateralism or reciprocity. Özden & Reinhardt (2005). The Commission of the European Communities (1976), suggests that GSP provides a turning point in international trade relations, i.e. between the industrial and developing countries. This is due to in the early application of GSP allowing a number of industrialised countries within the EU to undertake for the first time to trade with LDCs. It provides an important start to a new international economic order.

It can be argued from a political view point that GSP benefits the importer more than the exporter. Donor country to protect their own markets can pressure their LDC



governments to use the GSP system as because it can be removed if the exports get too high. Özden & Reinhardt,(2005). The EU also uses graduation whereby the imports are duty-free within predetermined limits. This provides a ceiling or quotas such that once the imported GSP goods reach the limits, the European Union customs tariffs are resumed. Commission of the European Communities (1976). Leading on from this the rules of origin discussed in the following section has become a political issue. There is the suggestion that this provides a protection of trade to the importing countries. It has become a leading issue and the WTO failed to negotiate for harmonisation of Non-preferential rules of origin in the Uruguay Round Agreement (GATT 1994). It highlights the complexity of the rules of origin and illustrates the need to retain autonomy among the contracting members to maintain autonomy so protection of their industries can be maintained. There was a refusal even to negotiate the issue of harmonisation of the preferential rules of origin. James (2006). Since 1994 there have been further suggestions that the international policy makers should consider investigating the rules of origin. Collier & Venables (2007). However, as yet, a framework for the calculation and formation of the rule of origin within different regions has not been created by policymakers. De Mel, et al (2011). There are many things to consider, a fact which was highlighted by the OECD (2005). For example the political climate and poor governance which can deter foreign investment. However, the inescapable conclusion is that without the preferences exports from LDCs would be less. OECD (2005).

## **2.6 Utilization of preferences accessing the EU**

There are many issues that affect the utilization of preferences. Whether it is the rule of origin, administration costs, risk of graduation or political issues, it is difficult to establish a figure for the utilization of European imports. When comparisons are made between the erosion of preferences and trade agreements the general methodology is to assume that the trade preferences were fully utilized in the first instance. However, this is not necessarily the case. So why are these preferences not being fully undertaken? Inama (2003).

It is argued that there is high utilization on high value goods as these generate high importation duty and therefore the preference provides higher savings. However, lower value goods, which are imported in large volumes, would also generate a significant

value of duty. This can provide contradiction with the academic research. Nilsson (2011) demonstrated that the utilization of the EU preference reduces with lower value imports. Preference utilization is lower within the machinery sector, where items tend to have lower values. However, why the preference is not being utilized does not appear to be the preferential margins or the cost of the rules of origin. Nilsson (2011) highlights that there are still further questions to be answered. Recent studies have been carried out with regards to the overall value of trade preferences. The issue has ignited economic research literature with regards to the economic implication of trade preferences. This approach considers that the lack of utilization could be due to the fact the value of preferences is not significant and therefore not undertaken by importers. Keck & Lendle (2012) found that utilization rates can be high, including the very small preferential margins. They investigated as to what determines utilization. The research changed from forming a percentage of the trade value to the utilization costs which have a fixed cost element. Therefore, they tried to establish a different view to reflect the utilization costs of a preference. This was based on four major trading entities: Australia, Canada, EU and the US. However, it is difficult to obtain statistical data from the EU and therefore the utilization rates can vary. Low et al (2009) tried to investigate the utilization rates but due to the scarcity of data in they found in obtaining comprehensive data in relation to the utilization rates the research was limited. However, Aiello and Demaria (2009), went further, defining the utilization of trade preferences as the ratio between the value of imports receiving preferential treatment and the value of total imports eligible for the preference. They concluded from related literature that the EU GSP is underutilized. Inama (2003); Low et al (2009), highlighted that preferences are utilized for all exports, but in practice utilization significantly varies across both countries and different trade sectors.

The definition of utilization rates can be the ratio between imports receiving a preference and imports covered by the preferential agreement; these can be greatly less than 100 per cent. However, specific tariff lines with a low rate of utilization implies that manufacturers of the same products, facing the same rules of origin and the preference margin take different decisions about using MFN or preference when exporting. When reviewing the trade agreements and comparing the advantages of the Most Favoured Nations (MFNs) with the GSP it is the MFN which often appears to be more advantageous and this could be an element as to why the GSP; on certain product lines, has low utilization. There is little known as to how much firms utilize Free Trade

Agreements (FTA). The FTAs are not compulsory and there is a cost with regards to administrating the FTA as well as compliance with the Country of Origin rules and graduation of the GSP. Hiratsuka et al (2008). As the development of MFNs increase then it is possible that the utilization of GSP will reduce. Seyoum (2005). Bureau, Chakir, & Gallezot (2006) suggested that although the utilization rate is high for non-reciprocal agreements, the individual utilization can be relatively low. This could be due to products being exported under a different preferential agreement. Hakobyan (2013), investigated the US utilization of GSP and estimated that 40 per cent of imports, which enter the US would qualify for GSP and yet have full duty paid on entry. This study was angled towards the exporters and relates to the cost of complying with the rules of origin from the exporters' view. Also highlighted within Hakobyan's study was the lack of academic research undertaken to investigate the utilization of the preferences.

The US compliance with country of origin states that the value of local components and direct processing costs must equal 35 percent of the customs value of the final product at the point of entry to the US. The US has less product coverage that is included within the scheme is considerably less favourable when compared to the EU. The EU GSP rules of origin are more restrictive as they relate directly to the product and consider changes in the tariff classification, as well as, specific processing requirement. (Hakobyan, 2013).

The country of origin rule or rules of origin have been highlighted as a reason for exporters not to engage with GSP. Brenton (2003) highlighted that approximately 50% of EU imports which are eligible for preferential treatment actually utilize the preference. The main reason for this short fall is the rules of origin. Brenton (2003) suggested that simpler rules of origin may help to increase utilization. Along with compliance issues with the rules of origin there is the administrative burden in relation to origin requirements. Low et al (2009). The US GSP has low utilization rates in relation to Asian and Small Pacific countries. This is due to the restrictive rules of origin and exclusion of products which are most lucrative for the developing countries. James (2006).

English (2016) argued that the underutilization is a concern for LDCs as it has direct impact on the LDC's economic growth. There is also an impact on importers who are paying full import duty when the preference could be used. This has a direct impact on

the importer's cash flow; revenue which could be used more effectively, in particular with regards to the smaller and medium companies. English (2013).

## **2.7 Environment**

GSP is considered to help with both trade as well as, the overall environment of the LDC. The donor has the authority to provide GSP to countries which comply with humanitarian issues as well as those endeavouring to improve international issues such as drugs trafficking. Sancho (2006). This is deemed to be political and argued to be justified on economic grounds. A number of developing countries have a global issue in relation to drugs and drugs trafficking; the EU has a committed policy on the fight against drugs. Commission of European Communities (2004). The issue was covered very well by a representative of Colombia speaking on behalf of the ANDEAN community:-

"The anti-drug campaign has a very high cost for the economies of the countries in question, entailing extra costs relating to the security and institutional deterioration and to the large number of victims of the violence caused by drug trafficking, which undermined the advancement of peoples. The preferential access granted by the EC merely facilitates trade, responds to trade and development needs and is based on the principle of shared responsibility endorsed by all those who undertook to combat the international scourge of drug trafficking". Sancho (2006). P. 279.

However, an appellate body investigating India's trade was concerned that not all developing countries affected by drug trafficking had not been considered for special GSP arrangements and concluded that there appeared to be a lack of criteria in this decision making process. They concluded that the special arrangements for combating drug production and trafficking, EU regulation 2501/2001 was discriminatory. Sancho (2006). Social GSP has been used to combat drug production and a number of Central American countries benefitted from the generous export opportunities. Pakistan was included in the GSP drugs scheme in November 2001, India challenged this and the WTO declared it was illegal. The GSP was reformed to include a GSP-plus regime which linked to sustainable development and governance. There is a suggestion that the EU reviews a ratified record rather than view the implementation of core labour standards, allowing former drugs beneficiaries to benefit from the special GSP preference

regardless of the violations of core labour standards. The EU could be seen as not prioritising improved labour standards as required by the WTO and the social GSP Plus has not been regularly used. Orbie (2008).

The EU GSP agreement currently includes a special arrangement rewarding sustainable development and good governance to promote implementation and ratification of International Conventions, In particular human and labour rights, along with environmental protection. This incorporates more of a multilateral approach and shared responsibility. Sancho (2006). The EU promotes GSP+ which incorporates International obligations on core labour and human rights as well as to encourage good governance and sustainable development. The GSP+ allows developing countries to enjoy further trade preferences above the countries who qualify for GSP. However, if a country does not fulfil the International obligations then the EU will withdraw the + of the preference or the preference as a whole. Zhou & Cuyvers (2012). Gasiorek et al (2010), p8 commented on a study undertaken by The Centre for the Analysis of Regional Integration at Sussex (CARIS), which established that there is a lack of evidence of the EU's preference schemes leading to export of new products. The EU have been criticised due to the lack of governance and economic capacity of the LDCs, which could be exploited by the EU. (Faber and Orbie (2009), p. 769). The Commission of European Communities (2004), highlights two special arrangements to encourage workers' rights and protection of the environment which form the "Social" and "Environmental" clauses within the GSP policy. It is noted that these clauses are not implemented very often. This is due to the beneficiary countries not being transparent with regards to their social legislation as they would be subject to rigours of scrutiny. It would provide another complexity which would impact on the beneficiary country's ability to trade with the EU. The environmental arrangement is very limited in its approach to environmental protection and relates mainly to tropical timber. The appellate body which investigates illegal drug production has been criticized for its lack of objectivity. The commission suggests that a broader concept in relation to governance and development is required. One method the EU has adopted is the development of Generalised System of Preference Plus (GSP+). This provides additional preferences if the beneficiary county has progressed on an international scale within these areas. The Commission of European Communities (2004).

## 2.8 Protected Markets

The level of discrimination which can be legally achieved when undertaking GSP is a grey area. There is a suggestion that if every GSP donor practices varying levels of discrimination practices, (i.e. within the rules of origin) then the world trade system will become a complex system of trade agreements that are best described by the term “spaghetti bowl”. However, if the multilateral rules on the differentiation were clearer it would make the system simpler and more transparent. Melchior (2005). Krueger (1993) argued that there is protectionist bias within free trade agreements, in relation to the rules of origin, with donors using them to protect their domestic markets.

Although the EU has created many free trade agreements on a global bases there have been many who claim that the EU entered into these agreements while protecting the EU market. The trade commission of the European Union has enhanced trade within the global market and become an effective player within world trade, while maintaining a contradictory method of protectionism and open free trade. Orbie (2008). The EU can refer to a clause in the GSP regulation imports from a beneficiary country, threaten or cause competition or difficulties to a European producer then, the Common Customs Tariff duties will be reinstalled at any time. Therefore, GSP can be withdrawn at any time. The threat of withdrawal may affect investment within the beneficiary country due to the unpredictability of the preference. Zhou & Cuyvers (2012)

When considering the Enabling Clause formed at the Tokyo Round of MFN regulation 1979, which helped form the “Decision on Differential and More Favourable Treatment, Reciprocity and Fuller Participation of Developing Countries”, Developed Countries can choose to discontinue with GSP schemes if they do not consider them to be of any use. This allows the granting of GSP to be deemed as an option rather than an obligation. A fact which was noted by the WTO when reporting on India’s claim that GSP was a form of protection. Sancho (2006) P 267-268. Grossman & Sykes (2004) argued that, in the case of India, the EU is seen to be less favourable to developing countries and therefore protecting their own markets.

The EU trade commission has influence on the process of GSP policy making. It is argued that as the EU develops trade relations with the ACP and the LDC groups, (G-90 in the WTO) which, enhances the EU’s dominance within the global trade, there is

competition from the G-20 trading group. This increases a defensive reaction and in turn produce a protectionist tendency with the EU. There is an argument that this is hindering the EU's goal of a free trade system. Orbie (2008). However, there is the argument that the donor's right to provide a preference and the developing countries do have the choice to accept or not? Grossman & Syke (2004).

## **2.9 Lesser Developed Countries' View**

The main reason for creating the GSP system was to enable LDCs to gain greater market access in the global economy and progress the LDCs economy. However, there is much debate as to whether this has been successful. The US reviewed their GSP system in relation to manufacturers. They suggest that the trade preferences can generate large supply options and they are able to switch between locations, which can develop uncompetitive economies and therefore have a permanent effect of the economy even if the preference is moved elsewhere. Collier & Venables (2007). Research undertaken interviewing Japan's importing companies found similar issues to those of the EU importers. For example, a number of Small, Medium Enterprises (SME)s in Japan lacked knowledge of the Free Trade Agreements (FTA)s available. The graduation of FTAs lowered the motivation for exporters to use FTAs. Costs of documentation preparation and the benefits of the lower tariffs benefiting the importers and not the exporters also impacted on the utilization of the FTAs. The labour costs in Japan are high and therefore administration is costly. Overlapping trade agreements also have an effect of the utilization of the FTAs. The issues highlighted here are similar to those concerning the EU. However, the companies interviewed are exporters and not importers. Hiratsuka, Isono, Sato, & Umezaki (2008). The beneficiary countries consider trade preferences with great importance and are aware of their real value and the limitations affecting the utilization of trade preferences. Inama (2003).

## 2.10 Donor Country - Importers

There has been little written with regards to the importer's position when utilizing preferences; the main focus being on the exporter and the policy makers. The manufacturing process has changed dramatically over the last twenty years with goods moving on a global scale to come together to make one product. Therefore, the process has to be flexible to be able to move manufacturing to countries with the relevant skills, infrastructure and the trade preferences. The manufacturing process has many different aspects, for example, specialist skills, knowledge, the supply of parts well as design and engineering. These aspects are supplied by many countries with different parts of the manufacturing process carried out in different countries and then all components fitted together in one final country. This is called fragmentation of production. It can also be referred to as unbundling or splitting the value chain. This can be an issue when establishing the country of origin, but enables the LDC to gain access to the global manufacturing market. Collier & Venables (2007). There is an argument that if the importer is able to move supply, then the main beneficiary's from the preference is, in fact, the importer and not the exporter. This is due to the importers having market power and therefore the benefiting from the preferential tariff rather than the exporters. Hoekman et al (2009).

Benton and Manchin (2002) suggested that just one third of EU GSP eligible imports into the EU actually entered into the EU with reduced tariffs. Although the EU has the most trade agreements within the global trade network, Candau, et al (2004), the overall utilization is low. 50 percent recorded exports from non-ACP LDCs which are eligible for zero duty access to the EU, are not applying for the preferential reduction of duty on entry into the EU. As importers have to pay the import duty when goods cross the border, it would seem likely that it is the importers who are failing to apply for the preference on entry. Brenton (2003).

Due to the restrictive legislation with regards to the rules of origin and the issue of graduation which, in many cases, is beyond the control of the importer, Traders and investors could regard the GSP reductions as a windfall. This results in the scheme not reaching its full potential as an incentive to increase trade and investment in the developing country. McQueen (2007). The Commission of European Communities (2004), suggested that it will try and make its proposals early in order for the council to



be able to adopt them on a timely basis to allow beneficiaries and traders to organise trade flows. This in turn, will provide continuity with regards to graduation and provide more stability to the GSP and, therefore, traders would be able to organise their supply chain and make the GSP a more attractive preference.

The next part of the chapter examines areas which could provide reasons as to why importers are not necessarily utilizing the preferences.

## **2.11 Critical Literature Review**

The literature has highlighted many different issues in relation to the application of GSP and how it is utilized. In the early stages of GSP there was a difference of opinion between the donors and the beneficiary's. The members of GATT/WTO argued that the LDC's would be able to export semi-manufactured goods to the donor countries using GSP. However, the LDCs argued that this trade will benefit the GATT/WTO members more than the LDCs. Commission of the European Communities (1976). As the use of GSP has been undertaken, over time by allowing the LDCs to have access to the EU market it has since been argued that GSP has enhanced trade with LDCs. Commission of European Communities (2004). However, within section 2.5 the political aspirations of the donor country are questioned, as they protect their own markets by promoting graduation on products when the import of which reach a certain level. Ozden & Reinhardt (2005). It is also argued the rules of origin is used to protect the domestic market. The WTO tried to negotiate harmonisation of the rules of origin, however, this was refused by its members. James. (2006). There is no framework for which the calculation of the rules of origin to which the different policy makers can agree. De Mel, et al (2011). This aligns with that to enter the global market LDCs struggle with complying with international rules and this can prohibit trade. Section 2.4, Commission of the European Communities (1976).

The type of goods which are utilized for GSP, high value goods which have a large volume benefit the most from the preference savings. The importation of high volume lower value import duty can also benefit from the utilization of GSP. Nisson (2011). Nisson (2011), found that if the duty was lower the application of GSP was less. This suggests that the cost of application or the rules of origin are not the main reason for

underutilization. Keck and Lendle (2012) found that if the preference saving was not significant then it was not used. However, there is a lack of statistical data available from the EU. Low et al (2009). Aiello and Demaria (2009) analysed the data of goods receiving preferential access to the EU and the total value of goods imported which were eligible for preference. However, this does not provide the reasons why the goods were not imported under preference. All of these approaches are highlighting that there is an issue of utilization when goods are imported into the EU. However, they do not suggest as to why this is the case. English (2010).

Within section 2.2, the argument is made that as GSP is non-reciprocal could be an issue, but GSP continues to be a leading preference. Panagariya (2002). Grossman & Sykes (2004), section 2.8, interestingly argues that the beneficiaries do have the right not to accept the trade preference from the donor. This implies the underutilization is in the control of the importers and there is an issue as to why importers are failing to apply of GSP when they enter the EU. Brenton (2003). To emphasis this further, within section 2.10, Hoekman et al (2009), concluded that the importer is the main beneficiary as it can move supply to ensure that the reduction of tariff is maintained. However, this contradicts the literature within section 2.6, suggesting that importers do not utilized the GSP if the value is low. In this situation the importer is not the beneficiary and suffers the full tariff costs while the LDC benefits from the export. Nilsson (2011). Brenton (2003). This highlights the lack of academic research as to why importers fail to apply for GSP on eligible goods.

### **2.11.1 Why is there limited research in relation to importers?**

Within the literature there is argument made that GSP benefits the importer more than the exporter. Özden & Reihardt (2005). To justify this conclusion the policies of GSP are investigated and how the donor countries are able to benefit from the import of LDC goods. Collier & Venables (2007). De Mel, et al (2011). However, further research implies that utilization is limited to goods of high value which benefit from the tariff saving. Nilsson (2011). The importers experience on how they apply the GSP is neglected as the research is of a higher level and investigates the EU GSP policy and from this assumptions have been made in relation to the application undertaken by importers. For example, the utilization levels are questioned by Benton and Manchin (2002), Candau,

et al (2004), but the reasoning given is that LDCs who are the exporters are not applying for GSP. However, it is the importers that apply for the GSP as the goods enter the EU. Brenton (2003). The importers experience of the application of GSP is becoming more relevant within the UK as the UK government prepares to leave the EU. See section 2.16.

## **2.12 GSP Utilization issues**

The utilization issues first emerged when investigating the literature in relation to the utilization of GSP, see section 2.12.1 onwards. When researching the historical element of UK's application of GSP within chapter four these issues were clarified further and these findings were used as the basis for the semi-structured interview questions in chapter five.

### **2.12.1 Country of origin/Rules of origin**

One way of protecting a country's market base is to create rules which can be difficult to comply with and therefore, while seemingly helping the LDCs, actually hinder the recipient Country's access. The country of origin rule could be considered in this way; it is a complicated rule to apply and can be different from country to country. Brenton (2003).

The rules of origin have many components which complicate the different trade agreements, regional/bilateral. The rules of origin serve the purpose of preventing the deflection of trade and ensuring that the origin of the goods receiving the preference originated within the exporting country. Nisson (2011).

**Figure 2.2:- Flow of goods using rules of origin**

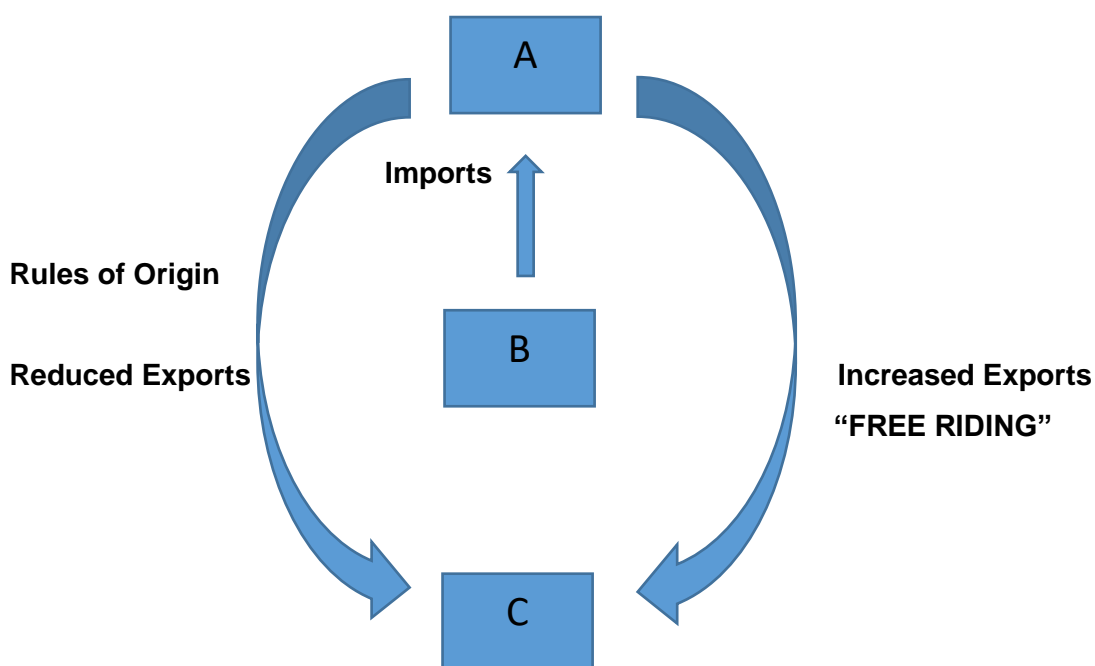


Figure 2.2 above, shows the issue whereby goods can be imported from Country B by Country A and then re-exported to country C with little or no change to the product and gain direct access to country C's market base in a technique labelled "free riding". This, in turn, puts pressure on country C's home market base and allows importation of cheaper goods. The complicated rules of origin helps to prevent the re-exporting of goods which are imported from country B to A and then exported to C and provides a form of protection of the home market. De Mel et al (2011).

Another aspect of the rules of origin concerns cumulation. This allows a LDC to import non-originating materials from other countries without the final country being affected. Portugal-Perez (2008).

As seen previously, if the EU agrees a GSP trade agreement with Country X and also with Country Y then under the normal rules of origin Country X and Country Y are unable to supply each other and then supply the EU.

The cumulation rules of origin overcome this by allowing the use of material/processes across countries with parallel or overlapping GSP agreements. This will allow Country

X and Country Y to include each other's goods and the EU to allow this as acceptable for GSP status.

This maintains a common standard and also increases trade within the GSP developing countries. There are three types of cumulation:-

1. Bilateral cumulation, between two countries.

2. Diagonal cumulation, three or more countries interlinked by trading agreements.

3. Total cumulation, three or more countries which is more flexible than the diagonal cumulation, Augier, Gasiorsek and Lai-Tong (2005), p4. Portugal-Perez (2008).

Augier, Gasiorsek and Lai-Tong (2005) in their conclusions from carrying out a formal empirical analysis, found that the rules of origin have an impact on trade patterns. They further concluded that the normal rules of origin restricts trade and when the cumulation rule is applied then this could increase trade by 50%. English (2010).

James (2006) argued that the rules of origin are necessary to prevent trade deflection and in turn provide tariff discrimination. If the rules were not required then individual members of Preference Trade Agreements would lose tariff policy autonomy as countries under cut the tariff. The rules are applied strictly and have to be adhered to in relation to the country of origin for goods to qualify for the Generalised System Preference. Therefore, the country of origin rules have been considered in many research papers as a reason for trade preferences not being fully utilized and thus the overall benefits to all parties being reduced. Hoekman et al (2009). However, Hakobyan (2013), argues that the utilization rate increased for higher preference margins which leads to larger exports. They also drew a conclusion that if there were a more relaxed approach to the rules of origin then GSP could be more effective.

Much has been written on the obligation on the exporters to comply with the rules of origin and why they have not chosen to utilize the GSP. Indeed, Inama (2003) suggested that there is a strong indication that the rules of origin can have a direct impact on utilization. Perhaps consideration should be made with regard to removing the rules of origin rule. Carrere, et al (2011) inferred that the rules of origin are key to the utilization

of preference and it could be liberalizing if the rules of origin were absent when importing from a preferential area. Less restrictive rules of origin (RoO) could allow trade deflection and make the trade agreements redundant. De Mel et al (2011).

The rules of origin do put pressure onto the exporters to provide the documentation to support the products undertaking the preference. The rules of origin can affect the exporter's local production and constraint it for little comparative gains and create extra costs. The exporter has to be able to track the origin of all the materials and monitor the level of the material usage within their products to ensure the rules of origin are not exceeded. Bureau, et al (2006). However, Brenton (2003) ascertained that there is no analytical review which accesses the practical angle of how the rule of origin affects the level of trade. Krueger (1993) argued that the rules of origin provided a source of economic bias in order to protect domestic markets within free trade agreements. Therefore, the rules of origin are deliberately complex to encourage this form of economic bias.

This emphasises that it is difficult to find out how much the rules of origin affect the utilization of the preference. Portugal-Perez (2008) suggested that development of LDC economies through trade would benefit if RoO rules, were easier to comply with.

## **2.12.2 Graduation**

Due to the GATT policy, whereby GSP lies outside purview of the legal system which binds policies, allowing donor countries to withdraw GSP, in particular when the LDCs economy has developed and is able to compete within the global market. Özden & Reinhardt (2005). The World Bank reviews the economies of LDCs as their economy grows it is re classified as high income. As the LDC becomes more competitive graduation measures are implemented. Hoekman et al (2009). The GSP scheme is regularly revised and a country can be graduated out of the scheme, which provides a degree of unpredictability. There can also be delays between the scheme expiring and being renewed at a later date. This results in yet more uncertainty and effects the export trade. Bureau, Chakir, & Gallezot (2006). The commission of European Communities (2004), referred to the shock of countries being removed by the United Nations from the list of LDCs and being classed as developing or developed. When this happens the

country automatically loses all the GSP advantages. Graduation is not always applied in this situation.

Graduation should be seen as a positive, confirming the LDC is developing its economy to no longer warrant the GSP assistance and that the GSP has been successful in its main function. Commission of European Communities (2004). However, this has a negative side as it makes the GSP appear uncertain and unpredictable as the preference can be moved away from individual goods or from the country as a whole. It may be justified due to the goods exported being able to compete on the global market place without the preference, or resulting from a breach in the rules, such as human rights, to which the LDC has to comply. For example, Sri Lanka had its GSP+ status withdrawn due to non-compliance of human rights. Bartels (2007)

It is generally assumed that the costs and benefits for the EU firms are low, irrespective of whether the trade policy is reciprocal or non-reciprocal. Generally, the partner countries are poor, rarely featuring in the formation of new markets and thus provide little threat as to the increase of competition. The support or opposition to the EU policy tends to be in a few sectors. Preferences policy makers therefore have more influence. If the policy makers change the development of the purpose of the trade policy, this has a major impact on the policy i.e. Graduation policy. Young and Peterson (2013).

GSP has gone through a reform and the changes were implemented in 2014. Due to this reform the upper-middle income countries lost their eligibility for preferences in addition a number of products were graduated out of the EU scheme. Siles-Brügge (2014). The reasoning from the EU for taking this action was to be able to develop the trade from LDCs more. This, in turn, has reduced the number of eligible countries for GSP, along with the number of products attracting GSP. This reform has, therefore, reduced the use of graduation of goods. Recently, graduation has been updated and the European Union has actively reviewed its graduation policy. Development Solutions (2017), regulation was updated and to remove a country from the list of beneficiaries two conditions must be met.

1. Other preferences are available to the Country.

2. The World Bank has classified the country as high-income or upper-middle-income for three consecutive years.

So, while graduation is still an issue, due to the eligibility of GSP being reduced for the upper-middle income countries to concentrate on LDCs, graduation has also been reduced. Development Solutions (2013).

### **2.12.3 Documentation and Costs**

Many costs that relate to preference are sometimes not foreseen by the policy makers, but affect the traders using the preference. This as an argument for under-utilization of GSP, but there has been little to quantify the actual cost to the trading parties of supplying and maintaining the preference. The administrative costs, in particular those attributable to the rules of origin, may exclude exporting countries from using preference. Hoekman et al (2009). Hoekman et al (2009), established that the GSP utilization ratio is low due to the costs and implications with regards to the rules of origin.

The exporters have to prove that the goods provided have been produced within the regulations set by the policy makers. The importers have the overall responsibility of providing proof that the country of origin rules have been followed. The importers are inspected in the UK by Inland Revenue and customs inspectors and are fined if the documentation is not complete. Some imports are not straight forward, if goods are transported to the EU in directly, then the goods have to be supervised by the in-transit country customs. Documentary evidence of this supervision has to be provided alone with proof that the goods have not been removed from the original transport. This again increases the costs and it can be difficult to obtain the correct documentation. Brenton (2003).

This is not only an issue in relation to the EU preference legalisation, countries have had issues with exporting to other preference providing countries. Hiratsuka et al (2008) interviewed Japanese exporters and concluded that to improve Free Trade Agreements (FTA)s by reducing the administrative costs required introducing a self-certificate system.



This is due to documentation currently having to go through the Chamber of Commerce of Japan who are strict and changes in the system are not fully conveyed back to the exporters. It takes time to arrange the correct documentation which delays export and creates costs. Sri Lanka also has had issues with maintaining the GSP agreement with the EU. Sri Lanka's exporters identified the cost of documentation appeared negligible and the need of the documentation was seen as necessary. Sri Lanka's exporters have not had any issue with obtaining certificates of origin. De Mel et al (2011).

## **2.12.4 Lack of Knowledge**

The legal boundaries and documentation is a complex area and all those involved in organising the trade documentation can find it difficult to keep up to date with the movements involved within the policy making process. English (2013) raised the issue that a number of importers simply do not have the knowledge of how to comply with the Generalised System of Preference itself. Inama (2003), suggested that preference giving countries have under-utilization of trade preferences due to importers not having the knowledge required to be able to access the preference. However, this has not been the main focus of academic knowledge, as academics tend to use the more generalised and well known aspects in order to justify their methodology approach. English (2016).

The lack of understanding of how to use the scheme and fulfil the documentation requirements can be a major issue with how the preference is utilized. Sri Lanka has had an issue with regards to its usage of the GSP scheme. One conclusion is that the strict Rules of Origin (RoO), low product use and a weak supply chain, through lack of understanding, has contributed towards the low usage of the preference. De Mel et al (2011)

Importers are held responsible for providing related documentation, completed in full, for goods to clear customs upon entry into the preference giving country. The lack of knowledge from the importers is a self-defeating argument. Inama (2003). Inama (2003) commented further that similar logic can be applied to the argument of failure to fulfil the extensive administrative requirements. However, the lack of knowledge that the preference exists has not been considered here. Due to the complicated preference

policies LCDs require technical knowledge and investment in infrastructure and administration to be able to increase the exports. Bureau, Chakir, & Gallezot (2006).

### **2.12.5 Transaction costs**

There has been an issue in evaluating trade agreements within the theory of trade policy and their effect on the level of trade undertaken. The Received Theory inferred that trade agreements negotiated by large countries will constrain the trade manipulation and reduce the policy of protecting the domestic economies. However, the opposite has occurred; countries that negotiate agreements do not prevent manipulation and will not negotiate multilateral agreements that are not to the benefit of the domestic economies. Ethier (2007).

Exporters not only have to consider price; the quality is essential due to the international competition. If this is not considered then this in turn can be costly to the exporter. Collier & Venables (2007).

### **2.12.6 Lobbying**

Many Free Trade Agreements (FTA) are altered by the lobbying power of interested parties. This can oppose efficient global trade liberalization. Any trade agreement changes, for example the graduation of GSP, can change the number of firms competing for the preference. This has an impact on the conduct of trade policy and movement of market shares. The protection that the importers can demand by lobbying in turn, restricts other member countries utilization of the preference. Stoyanov (2014). The US, however, appear to take a more open policy with regards to lobbying as US GSP allows any person to petition the US government for country and product eligibility. The US Government then invites interested parties (foreign governments, affected industries, etc) to submit written materials before recommending for appropriate action. Seyoum (2005). Grossman and Helpman (1995), emphasizes the framework within the US, allowing competing interests within a country and providing interaction of lobby groups representing the same interests. US lobby groups go as far as offering campaign

contributions to a political group during the process of US elections. English (2016), found that within the EU it is the larger companies that have the capacity to lobby the EU GSP committee and thus, in turn, influencing the political decision making process.

The lobbying can also be on a wider bases, Wolf (1994) argued that lobbying has a limited influence as Europe's trade agreements can be thought of as a way forward for free trade rather than an obstruction within the WTO. However, EU policy makers can be deemed as pressuring the WTO negotiating partners for competitive liberalisation. (Orbie, 2008).

To go further, there is currently a limitation of preference for emerging economies and it was proposed to scrap GSP for preferences which are already considered under another FTA. However, no country in advance FTA negotiations would lose GSP. The Thailand ambassador lobbied the EU to start to implement FTA negotiations as the GSP preferences were due to run out. At the time the EU's GSP scheme was 3.58% of Thailand's total exports. Siles-Brügge (2014).

### **2.13 Does the GSP scheme work or should another method be used, i.e. Aid?**

Several academics have investigated if the system of Generalised System of Preferences actually serves the purpose that it was originally generated for. Hoekman & Prowse (2005); Low, Piermartini, & Richter (2009). Hoekman and Prowse (2005) questioned the workings of GSP and the issue of preference erosion, for example, importers using other trade agreements in relation to the Most Favoured Nations (MFN) and the effects this has within the agricultural sector of Lesser Developed Countries (LDC). They identified that trade preferences provide a mix of benefits for exporters as well as imposed costs to the exporter. Hoekman and Prowse (2005) identified the trading system to expand preferential access to emerging markets, reducing costs of rules of origin via harmonization. The issue of aid for trade and how the objectives of preferences could be more effective across a broader group of countries. The suggestion that market access is not necessarily the most important aspect of constraining export growth in LDCs and that sorting out the domestic supply side constraints will require funds to invest, therefore Hoekman and Prowse (2005) suggest that trade policies is weak when

considering these constraints and more domestic policies should be investigated. Aiello and Demaria (2009) found that the impact of ordinary GSP is positive for many agricultural sectors and therefore suggests that EU trade preferences actually help beneficiary countries to increase exports. The WTO has encouraged the growth of preferences and suggested “Aid for Trade”. Herz & Wagner (2011).

The argument of how effective the preference is in providing LDCs with the advancement of their economies and releasing them from poverty. For example, the net effect of the EU GSP does not enhance export flows and therefore does not meet its obligations. The causes of this have been suggested as; high administrative costs, restrictive Rules of Origin or due to the size of the trade preferences. Aiello and Demaria (2009). There is a discussion point on how the EU can claim that it is concerned with increased development and reducing poverty. It does not seem to give this the importance it deserves, due to contradictions of the EU’s trade policies. Young and Peterson (2013)

For example, consider the production of bananas collapses, the aid required will be a substantial amount and would be required for a significant length of time. Aid will not provide reliable financial assistance for a length of time, nor will it be necessarily politically viable. However, by using the generalised system of preference there is an argument that the banana producers will be able to have a more sustainable export market to the EU. But the banana suppliers will be susceptible to the EU GSP policies which may be difficult for them to maintain. McQueen (2007). Improving utilization rates may help some developing countries, however, they do not necessarily offer a utopian generalised solution. Low et al (2009).

## **2.14 Changes to the GSP Scheme**

The EU changed its trade policy during the mid-1990s with regards to developing countries. It moved away from supporting former colonies and broaden its policies to assist the world’s poorest countries. Young and Peterson (2013).

During this period the EU developed a new GSP scheme and incorporated two fundamental elements:-

1. Tariff modulation mechanism
2. Country/sector graduation.

The overall impact was that tariff modulation altered the previous version of GSP and removed quantitative limitations of GSP imports. Instead, the modulation developed a product classification, these classifications are in relation to product sensitivities within the Donor economy:-

- |    |                |                                  |
|----|----------------|----------------------------------|
| 1. | Very sensitive | 15% preference tariff reduction  |
| 2. | Sensitive      | 30% preference tariff reduction  |
| 3. | Semi-sensitive | 65% preference tariff reduction  |
| 4. | Non-sensitive  | 100% preference tariff reduction |

Following this introduction the average duty applied to LDCs increased from 2.8 percent in 1994 to 3.4 percent in 1997. The MFN rates during this period fell from 7.3 percent to 6 percent which suggests that the utilization of GSP increased during this period. Young & Peterson (2013) and Moore (1999).

The country/sector graduation excludes certain countries from GSP preferences for specific sectors or in some cases, the entire EU GSP scheme. The decision to which countries will be graduated out of the EU GSP scheme, is as based on the export specialisation which is the ratio between the beneficiary country's share of the EU total imports within a given sector and their share of total EU imports in all sectors. A development index which is formed from a country's per capita income and total exports, comparing them to the EU is also factored into the decision. Moore (1999).

The impact of the graduation from 1995 to 1998 can be seen the industrial products covered by GSP which dropped from 73.5% in 1994 to 66.9% in 1997. This underpins the dramatic effect that graduation can have on exporters and the level of trade they undertake. UNCTAD (1999) and Moore (1999). Due to these changes there are concerns that the EU's main market entry issues will not enable development of the LDC Heron 2007, p212-213). There is a debate for the total removal of tariffs altogether. This would benefit some developing countries but in turn would not benefit the LDCs which currently

has a healthy preferential trade with the EU's market which is their key export sector. The EU has suggested reducing the tariff on total industrial goods imported by 44 per cent, HLTEG (2011). The EU is encouraging emerging economies by renegotiating major improvement in the market access to the EU. However, with regards to the GSP the developing markets are less able to use GSP due to changes in the GSP system in 2016. (European Commission 2012 a, p17). By contrast, the EU has favoured aid for trade and supported measures that benefit LDCs. However, this could be described as only marginally in EU economic interests.

Since the financial crises 2007/08 there has been a move to consolidate the EU's FTA agenda and liberalise global trade. The EU commission stated an open trade policy if to succeed the emerging and developed trading partners have to of the same level as the EU, with regards to effort and spirit of reciprocity and mutual benefit. So there is an argument as to why GSP is being developed further as this is a non-reciprocal preference. This also contradicts the EU position of possessing sufficient leverage when negotiating trade agreements. Therefore, there is pressure to try to obtain liberalisation gains (for exporters) to aid EU growth and to try and turn around the so called protectionist sentiment. The financial crises has slowed down the rate of growth and therefore the EU is less attractive to emerging economies. The EU has a large number of trade agreements on the global market and therefore has less room to develop the open trade policy. However, due to the macroeconomic policy constraints, the trade liberalisation route is the most inexpensive method. Siles-Brügge (2014).

The EU GSP updated its regulation and this came into force in January 2014. There were three key changes:-

- 1 High-income and upper-middle-income countries as defined by the World Bank for three consecutive years, are no longer entitled to preferences.
- 2 To remove countries which already have a trade agreement with the EU which provides the same tariff preferences as the GSP scheme. For 2011 this would reduce the pool of eligible countries and territories from 177 to 90.
- 3 There were a number of changes to the graduation principle for GSP importation. The new rules make it simpler for products to be graduated. The threshold value

was decreased from 17.5% to 15% and from 14.5% to 12.5% for textiles and the number of product categories to 32 from 21. The value of total imports used to calculate market share was reduced due to the decrease in GSP beneficiaries. Siles-Brügge (2014).

These changes are in line with the World Trade Organisation's ambition to help developing countries gain access to the global market.

## **2.15 Reforming GSP in the interests of the poorest**

The WTO is reviewing the issues in relation to reducing poverty and what disciplines are required to have a positive effect. The WTO developed a normative framework which has evolved from the normative argument that the assistance should no longer stem from a country's colonial history but be based on its relative poverty. The EU trade and development policies are being reviewed to be more in line with the paradigm shift on focusing "GSP preferences on the country's most in need". One method is to exclude those countries that have successfully developed their economy and can compete within the global market place. Many changes are appearing within the EU trade/development policies and a change in political preferences has translated into a dramatic change in the EU's policy within this area. Young and Peterson (2013).

## **2.16 Brexit**

On the 23rd June 2016 the UK held a referendum to consider whether to leave or to stay in the European Union. The result was to leave the EU and the UK has until Friday 29th March 2019 at 11pm to organise how it will leave the EU. The UK invoked Article 50 of the Lisbon Treaty allowing both the EU and the UK 2 years to agree the terms of the split. Theresa May (UK Prime Minister) triggered Article 50 of the European Treaty on 29th March 2017 and this is the current position when writing this thesis. Hunt & Wheeler (2018).

This has a big impact on GSP as this is a trade preference and therefore will be affected by how the free trade agreements are incorporated within any new UK law.

Molinuevo (2017), questioned the validity of the current trade agreements after Brexit, in relation to third party countries and if they will lose their preferential trade after March 2019. The UK is an original member of the WTO and will therefore still continue to be a member of the WTO. This will mean it will have to provide full compliance to the WTO rules. Lydgate et al (2016), highlighted that the UK would have to negotiate with the WTO as well as the EU on how it will establish its trade relationships moving forward. Lydgate et al (2016) also argued that due to the UK wanting to regularise its own WTO schedules and the EU changing to 27 countries the WTO members could demand that the EU also renegotiates its schedules. Currently there is uncertainty as to whether the UK will continue to use the existing EU network of Preferential Trade Agreements or will have to renegotiate their own agreements. There is an argument that the UK is a party to the EU preferential trade agreements in their own right as the UK is a sovereign state and therefore will be able to continue as before. The UK may still have to agree amendments to the beneficiary countries, with regards to the UK territory after Brexit. There are 98 developing countries who benefit from EU GSP and any or all of these could be impacted by Brexit. Lydgate, et al (2016) states that the figure is 92, so even the current number of GSP agreements being used within the EU is fluid. GSP will continue with regards to the remaining 27 countries once the UK leaves. However, Minlinuevo (2017) argues that, as GSP is part of the EU's Common Trade Policy, the UK will not have access to the current EU GSP schemes. The UK can introduce a GSP regime of its own and the developing countries and LDCs access to the UK trade would depend on the renegotiated terms with the UK. Lydgate, et al (2016), argued that the UK will have to re-negotiate more than 100 new trade agreements and they suggested that the UK could opt for temporary peace clause, to try to maintain the current EU terms during such negotiations.

Lydgate et al (2016) suggested that to agree the trade deals in relation to third parties in particular, the UK has to redesign future trade agreements with the LDCs which are currently covered by the EU GSP. Even if the UK is able to use the current EU GSP as an outline, to bring this into UK law and the associated agreements will require renegotiating with the third party. The UK would also have to consider its home markets and define the sensitive sectors which it will want to protect. Lydgate, et al (2016) further argues that if the UK uses the temporary peace clause with the EU it will allow the UK to continue with the existing terms of trade and the UK would continue to apply the GSP provisions while renegotiating revisions over a period of five years. This would lessen



the impact when leaving the EU in March 2019. Mendez-Parra, et al (2017), takes a different view and looks for the opportunities for the UK to improve current free trade agreements and preferential trade. They recommend that the UK should firstly avoid damaging the LDCs as it leaves the EU. The UK should apply a simplified tariff structures and assess the effects of trade agreements on the poorest countries, including the cumulation in the rules of origin. The EU and the UK should aim to minimise the disruption on the value chains and look to liberalise the rules of origin allowing for increase of preferential access. However, as mentioned earlier, Lydgate, et al (2016), argues the UK domestic markets would have to be protected and therefore this would require careful consideration. Minlinuevo (2017). Mendez-Parra, et al (2017) and Lydgate, et al (2016), both concluded the Brexit is very complex and there are many directions the UK could take in relation to trade. The UK needs to remember that the EU will have to agree to the terms the UK wishes to set. It is going to be difficult for the UK to consider all aspects in relation to all the stakeholders concerned.

## **2.17 Gap in knowledge**

When reviewing the literature it is clear the issue of utilization is not resolved and there are numerous aspects which required further investigation. This highlights clearly the gap in the academic knowledge to justify the utilization of the GSP in relation to the EU and this issue is to be researched further with comparisons to other GSP donor countries, to establish if the GSP working fully within global trade. The academic literature does not appear to consider the needs of the importer by surveying and interviewing importers direct, to see what issues they have in adopting GSP within their business. This area needs to be expanded more to enable justification to the data used within various academic's theory formulas.

There is an argument that MFN could be more advantageous than GSP and they have impeded on the utilization of GSP. Seyoum (2005). However, the literature highlighted that there is little data provided to establish how much firms use the MFNs. Hiratsuka et al (2008). The gap in academic knowledge is to justify the argument by using financial data from Europa (2013).

## 2.18 Conclusion

There are many distortions to the global market which affect the level of trade undertaken. The dilemma of an importer establishing trade with a LDC supplier only to have GSP withdrawn, with the minimum of notice or reduced via graduation, could have an impact on the overall utilization of the preference being undertaken. Hoekman et al (2009), suggested that due to the GSP scheme being regularly revised and the possibility that a country can be graduated, does provide a degree of unpredictability. There is the issue that there may be a delay between schemes expiring and being renewed at a later date, providing added uncertainty. Bureau, Chakir, & Gallezot (2006). There is also the issue of the documentation and administration costs burdening the importer. Interestingly, the literature has highlighted that there is a lack of knowledge among importers both, that the GSP exists and the value that it could produce; in providing a cash injection back into the importer's business. Inama (2003); in particular, highlighted the issue of under-utilization due to importers not having the knowledge to be able to access the preference.

There is an issue with the lack of data freely available from the EU, to allow a more accurate assessment of how effective trade preferences are. This is proven within the utilization of preferences section of the literature review; many academics question their results and can contradict the academic research undertaken. Low et al (2009) and Nilsson (2011). There is consideration of the different types of preference, for example the MFN, bilateral agreements as well as GSP. Bureau, Chakir & Gallezot (2006). Leading on from this there is the consideration to be made with regards the political aspect of the preference trade. The EU has been criticised by some academics that, while incorporating GSP, they are at the same time protecting their own markets by creating many trade agreements with complex country of origin rules, and complicated administration requirements, which the importer is responsible for. Orbie (2008) highlighted that the EU develops trade relations with the (African, Caribbean and Pacific) ACP and the LDC groups, (G-90 in the WTO). This enhances the EU's dominance within the global trade, there is competition from the G-20 trading group. This promotes a defensive reaction and in turn produces a protectionist tendency with the EU. There is an argument that this is hindering the EU's goal of a free trade system. Orbie (2008). The suggestion that lobbying has its merits among importers is an interesting aspect within the literature as this flags up the issue of importers creating their own protection.

This, in turn, restricts the overall utilization of preferences and has an impact on the ability of trade policy and the movement of trade policy on the global market. Stoyanov (2014). However, Aiello et al (2010) concluded that GSP does provide a positive impact for LDCs within most sectors.

Individual companies will consider the benefits and costs of claiming GSP and whether they should pay full duty. However, Hakobyan (2013) observed that the utilization was at the country product level of the data rather than from individual companies.

Brexit has spawned many suggestions provided by academics which have yet to be incorporated within the trade negotiations. The UK certainly has an opportunity to review the application of GSP and, as GSP is a non-reciprocal preference, it could be negotiated and used before the FTA agreements are agreed. Due to the uncertainty at the moment this area will be developing over time; there is the opportunity to improve GSP to benefit both the UK importers and the LDCs.

The literature explored the complex issues in relation to the political element of GSP and how it develops into a protectionist framework. The preference utilization theories have suggested that by developing a complex GSP policy by using country of origin rules, and applying graduation of imports if exports reach a certain level has impacted on utilization of GSP. This provided a platform for the development of hypothesis shown in in section 3.9.

The thesis is structured to evaluate the utilization of GSP (within chapter 4) from when it was first implemented by the UK in 1970 and throughout the following 46 years to establish if there is an issue with GSP utilization and investigating the causes there of. The MFN has been highlighted within the literature as a possible reason for GSP usage to reduce. Within the same chapter data is analysed to see if this academic reasoning is correct. Chapter 5 will investigate the gap in the academic knowledge, by interviewing UK importers and UK trade organisations to seek reasoning for any utilization issues of GSP from the view point of importers sourcing from non-EU countries. Chapter 6 considers the impact of Brexit on international trade and GSP. Chapter 7 combines the findings of chapters 4, 5 and 6 to see if there is any correlation between the findings and to establish if there are any consistent themes which can be identified. Chapter 8 concludes the research undertaken.

## **Chapter 3 Methodology**

### **3.1 Introduction**

The chapter explores the overall research philosophy and development of methodology in relation to the research undertaken.

The previous chapter has shown, by means of a literature review, that there is an issue of utilization of Generalised System of Preference which academics have investigated and provided many different reasons for. While reviewing the literature it is clear that little research has been undertaken within primary research in relation to the importers. It appears that the main methodology previously undertaken by researchers relies heavily on secondary data, exporters, the effects on the Lessor Developed Countries economies and how they are coping with the application of the preference. However, the importers will have a part to play within the preference. After all, it is the importers that are liable for penalties for incorrect application of the GSP at the point of importation when goods cross EU borders. The overall approach has been to develop research from secondary data using historical records to support the findings from this data by using primary data in the form of interviews with UK importers and associations to establish the underlining issues in relation to the utilization of GSP.

The chapter will provide an insight into the research philosophy employed and the development of three hypotheses to which the thesis will conclude. It will highlight the consideration taken with regards to research theories when first approaching the research and how these relate to the overall research strategy. The final part of the chapter directly relates to the research undertaken and how the modelling of the data has been used to be able to compare the secondary data from 1970s onwards. This has allowed the primary data from the semi-structured interviews to support the findings of the historical data. By using deductive research the chapter considers the methodology in relation to the development of the interview questions, the sample selected and the statistical analysis.

### 3.2 Research Philosophy/Methodology

There are various methodologies that can be undertaken with the view of researching a topic. Saunders, et al (2003), suggested a research process described as an 'onion' with each process being a layer of onion skin, that could be used to reveal the levels of research philosophy undertaken. English (2010), developed this approach further and simplified the layers to: the research philosophy being the outer skin, research approaches, research strategies, time horizons and the data collection methods at the centre of the onion. Throughout this chapter the various layers of the onion will be integrated with the methodology to provide an overall framework for the research undertaken.

**Figure 3.1 Research Onion**



Source: English (2010).

### **3.2.1 Research Philosophy**

When starting to look at the methodology theories there are two directions to research; scientific and social sciences. The scientific approach relates to building a theory. The present situation is known and a theory is built on the present theory. A prediction of the capability of the theory if altered. It is now embedded among scientists that a theory without a predictive utility has no value. Fawcett & Downs (1986). However, the social sciences approach is different. If you consider that people behave differently it is difficult to build a universal theory when there are several theories which could apply. While creating the management research framework the theory needs to be considered along with how it can serve that particular purpose. Hussey and Hussey (1997). A theory developed from research being undertaken can be limited by the boundaries subconscious placed around the issue being researched. The researcher could use their own ontology to interpret and develop the theory. This presents an unbiased analysis of the research undertaken. Giaretta and Guarino (1995). Therefore, within the research, there may be a number of competing theories trying to understand a problem which suggests that the predictive utility of a theory is not appropriate. Crowther and Lancaster (2012), p27. This is the approach taken for the research undertaken, due to uncertainties as to the interview responses and how the secondary data would be developed. There are several theories evolved over the process of this research with regards to the methodological approach to the research study undertaken. The theories of epistemological and ontological orientations have been defined by many academics, Giaretta and Guarino (1995), Crowther and Lancaster (2012), Fawcett & Downs (1986) and Hussey and Hussey (1997). Therefore there are many explanations as to the workings of the two theories.

### **3.2.2 Epistemological Orientation**

This approach undertakes the organisation of knowledge and explains the methodology within the form of theories. It investigates the philosophy of human knowledge in relation to the approach of theory; in particular the nature, grounds, limits and validity. Crowther and Lancaster (2012). The research uses the epistemological orientation as there were unforeseen limits over the data collection period due to the UK leaving the EU on 23

June 2016, the nature of the approach undertaken organised the development of knowledge to enable “*investigation of the issues affecting utilization of the European Union (GSP).*”

### **3.2.3 Empiricism**

There has been many debates of the merits and defects of empiricism. The modern empiricists accept that experience is unable to determine knowledge, but experience forms a justification of belief. There are three approaches which classical empiricists acknowledge:-

- 1) Knowledge can be approach using perception.
- 2) Therefore all knowledge is generated from perception. I.e. At the beginning of research there is no knowledge until the research has been undertaken.
- 3) The knowledge is developed to provide a true or false statement, due to formal properties of the language used.

Ryan, et al (2002).

The mixed approach of using qualitative and quantitative research allows for an empirical approach as it uses concepts measured to empirical indicators. The hypothesis states that there is a relationship between the empirical indicators. This allows the hypothesis to become testable and to conclude if it is true or false. Fawcett & Downs (1992).

### **3.2.4 Interpretivism**

The approach of interpretivism has a different approach as each complex business situation is unique as they relate to the function of individuals and the circumstance. Therefore, it can raise questions with regard to the overall generalisability of the research that tries to capture the wide dimensions of social situations. The interpretivist would argue that the generalisability is not of value therefore why consider it. There is an issue

that the business world is always changing and therefore what is of value today may not apply in three months' time. Taking social constructionism, it follows the interpretivism view of exploring the subjective meanings which motivate people's actions and how they interact with their environment. They also try and interpretate the socially constructed findings and develop meaning from this data. As the approach is social constructionism it will mean many different situations. This leads to different interpretations which will affect their action and how they interact with others. Therefore, they interact with their environment and also seek to interpretate the events and provide meaning drawn from these events. The role of the interpretivist is to seek understanding of the subjective reality in relation to those they study making sense of their motives, actions and intentions in a way which is meaningful for the research participants. Saunders, et al (2003). Interpretivism is considered within the research methodology as companies at times will make decisions to save costs rather than go ahead with an action which, may require a large amount of effort for some gain. However, it is used within a mixed approach of qualitative and quantitative paradigms as this is an appropriate approach to the research undertaken.

### **3.2.5 Realism**

Using social constructionism allows the recognition of the fact that people are able to, and will share, interpretations of their socially constructed environment. Realism draws on this further as it is formed on the belief that reality exists independent of human thoughts and beliefs. Studies within social science and the study of business and management, indicate that large-scale forces and processes act on people who are not necessarily aware of the existence of such influences on their interpretations and behaviours. There are social objects or phenomena which are external to, or independent of, individuals, affecting the way they perceive the world, whether they are aware of these forces or not. Therefore, realism, when applied to human subjects, allows for recognition of understanding people's socially constructed interpretations and meanings, or subjective reality, to try and understand the nature of people's views and behaviours. There is the thought that one method is best, however, business and management research is mostly approached with a mixture of interpretivist, with realism providing an overall reflective view. Saunders, et al (2003). The nature of the study being

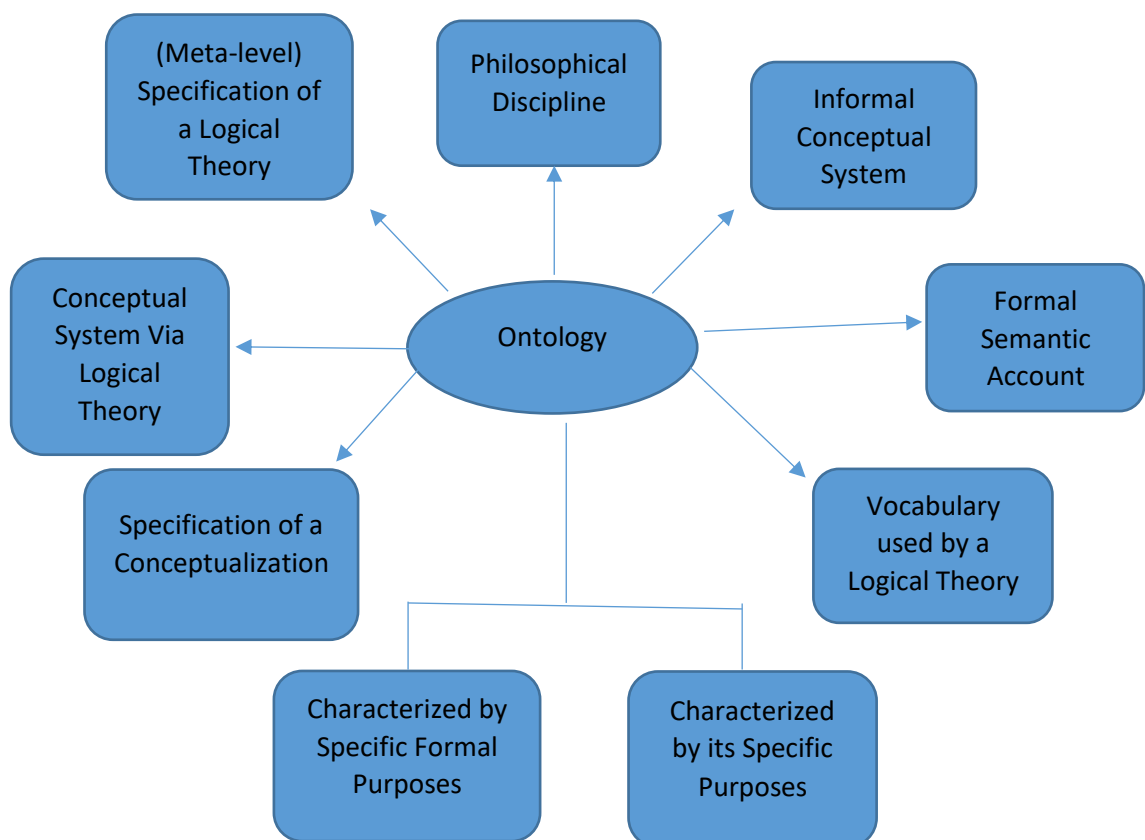


within business decision making, the mixture of the interpretivist with realism is the appropriate approach to investigating and researching the hypotheses shown in 3.2.2.

### 3.2.6 Ontological Orientations

This approach considers the philosophical angle of the nature of phenomena and investigates the universal characteristics of all existence. Crowther and Lancaster (2012). Giaretta and Guarino (1995) observed that the meaning of Ontology is vague and the term is used in many different ways. However, after considering various aspects of the debate as to what Ontology is, they have highlighted the following aspects and clarified their meaning.

**Figure 3.2 Ontology Interpretations**



Source:- Giaretta and Guarino (1995)

Ontology includes philosophical discipline which is described as being in very different from other interpretations as they refer to the part of the philosophy looking at the nature and the organisation of reality. While informal conceptual system assumes a particular knowledge base, the formal semantic account provides the ontology as expressing the knowledge base with formal structures. The vocabulary used by a Logical Theory could interpret theory as considering the ontology as being a logical theory. This description considers specific formal purposes, is an approach to try to conceptualize the vocabulary and to clarify the meaning of the term “conceptualization”. Giaretta and Guarino (1995)

What is the definition of ontology?

Ontology can be used to represent common knowledge. It is based on the notion of conceptualization which is put in a semantic way and provides a framework to allow the distinction to be made between an ontology and an arbitrary knowledge base. Giaretta and Guarino (1995). Giaretta and Guarino (1995), p6, presented the ontological theory as “a set of formulae intended to be always true according to a certain *conceptualization*.”

### **3.2.7 The research philosophy undertaken within the research**

The research is aligned to the social sciences and therefore a deductive rather using inductive which is more in line to a scientific approach. The researcher would be able to use their own ontology to interpret the direction of research, while developing an epistemological approach to building the theory from the findings.

There can be different views of the overall approach. The main ones that dominate this area are empirical, interpretivism and realism. Each of these have been reviewed to establish which is the most applicable to the research to be undertaken. Due to the research considering both secondary and primary research elements, both of these philosophies will be used within the data collection process.

### **3.3 Research Approach**

The research should consider the question being *deductive* or *inductive* in its approach. Choosing the deductive approach methods will allow a hypothesis to be developed and this will continue with a research strategy designed to test the hypothesis, (deductive). If the inductive approach is followed then the collections of data and the data analysis, would be of concern with a study of a small sample size rather than a large sample size to which deductive research lends itself. The research can have a combination of both approaches and very often research is improved by the dual approach. Saunders, et al (2003). As the research areas are interchangeable with the issues for utilization and the fact that the UK leaving the EU has an impact on the study, the flexibility of the deduction methodology was undertaken.

The ethnography approach, which originates from anthropology, follows the inductive research approach. This direction looks to interpret the social world of the research. As research can be very time consuming and lengthy, the research process itself needs to be flexible and able to respond to change, as the research will be developing new patterns of thought process. This is not a strong research strategy in business, but, ethnography should be considered as it can deal with detail within participants' observation; a research method that dominates ethnography. Saunders, et al (2003). Although the intended research will not be dealing with participant's observations directly there will be an element of ethnography to be considered due to carrying out semi-structured interviews.

There are many different research methods which can be undertaken. The theory process underpins the research and how the evidence is processed into findings. The initial purpose behind research is to gain a more in depth understanding of a phenomenon. The overall findings of the research then provides data into a recognisable structure, from which conclusions can be made. Brown (1977).

#### **3.3.1 Research Approach**

There are many different theories used in the approach to the research undertaken due to the flexible nature of the semi-structured interviews and the changing situation of GSP.

It lends itself to interpretivism, in particular in relation to how businesses react to the changes in preferences. Businesses will base their approach forwards the use utilization of the preference using realism as to whether it is practical to apply the preference. Therefore, the research approach uses a mix of all three theories in relation to applying the semi-structured interviews and a mixed approach of qualitative and quantitative when analysing the secondary data.

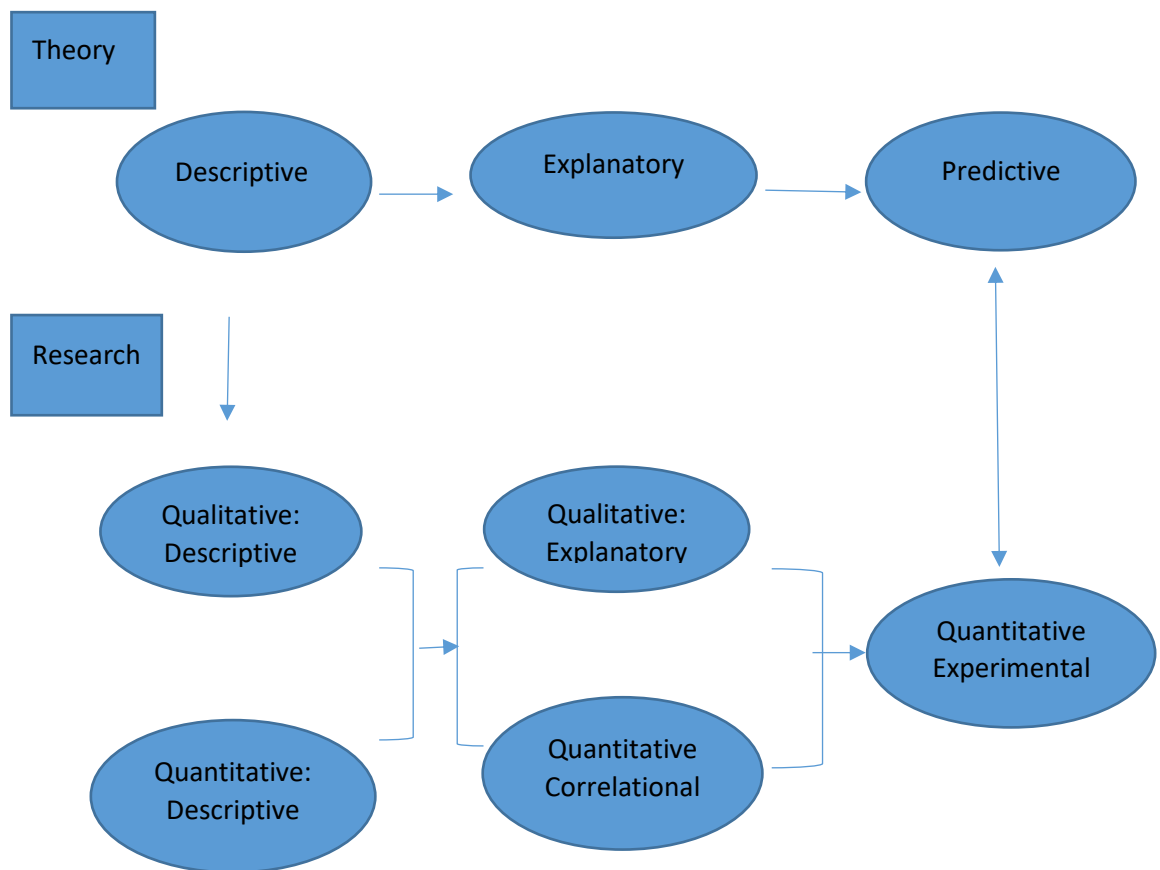
### **3.4 Research Strategies**

There are a number of strategies which relate to the above research but the two theories which lends itself to the type of research undertaking is, descriptive theory and empirical. While descriptive approach may be considered a basic type of theory but it does cover the nature of research undertaken. It relates well to open-ended or structured interviews, which form part of the research undertaken since the data gathered can be qualitative or quantitative in nature. The qualitative data can use content analysis as it will allocate data into categories that become apparent with the analysis. Quantitative data can be analysed by statistical measurement of the main trend and any variability in measures such as for example, mean, median, mode, standard deviation and range. Fawcett & Downs (1986). This is shown within the interview data collection in chapters 5 and 6.

To be able to test a theory the concepts can be observed empirically. By observing the concepts in an empirical nature, it allows for measurement. For example by using the themes developed within the historical chapter 4, an empirical indicator and the question results from the interviewees as concepts. Chapter 7 combines the qualitative interview data with empirical data to provide a numerical platform so allow results and comparisons of the qualitative data to be made.

The research strategy will use a mixed method approach as it undertakes analysis of both qualitative and quantitative data of which descriptive and empirical theories allowing for the creation of knowledge within the research undertaken.

**Figure 3.3 Progression of theory and research.**



Source:- Fawcett & Downs (1986)

### **3.4.1 Research Design.**

The actual thought process of the research undertaken by the researcher is an in depth process and there are many aspects that need to be considered to ensure that the research method undertaken provides the theory aspects with sound data to work on. Many researchers have acknowledged that the method and medium chosen can affect the quantity and quality of the data gathered and there has been in depth research undertaken to try and establish the advantages and disadvantages of the various data collection methods. The sampling used within these methods can present the researcher with many issues when establishing the validity and reliability of the data collected within a target population. Ketchen, et al (2006).

## **3.5 Time Horizons**

### **3.5.1 Research data**

The time horizons can be described as the time allocation provided to collect data. The time horizon for the research undertaken was from May 2016 to July 2017. Throughout this time period the author was sourcing with people who understood the implications, benefits and mechanism of importing from outside the EU. Interviews were undertaken within this time period with Senior Managers, Directors and Trade Associations who had clear knowledge of the importation regime and could also provide an insight into strategy in relation to the Brexit vote which happened on 23rd June 2016. (See 5.1 page 116). This had a dramatic impact on the interviews due to the uncertainty businesses felt and continue to feel in relation to international trade; it became difficult to secure interviews as a result of this uncertainty. However, the trade associations were more assessable due to a networking opportunity within the Stakeholders' Meetings attended at Westminster, London. Therefore, the time horizon was lengthened to allow access to additional interviews as the Stakeholders' Meetings are only held twice a year. The data collected from these nine interviews, rather than becoming less relevant, has increased in value as the policy making, in relation to International Trade, has progressed post Referendum Vote.

Due to the sample of interviews being smaller than anticipated research was extended to include the utilization of GSP since the UK first incorporated GSP. The UK first incorporated GSP in its trade policy in 1970, which pre-empted its first use within the EU in 1973, and has had access to the EU GSP policy over the last 45 years. The research undertaken was to establish if there were any issues when applying the GSP and if this had an impact on the utilization. There was also an investigation carried out with regards to the impact of using the Most Favoured Nations (MFN) preference and the possibility that reduced the use of GSP.

## **3.6 Data Collection Methods**

The data collection process was a methodical approach which produced an outline, creating a structure of the data and providing guidance within the study design. Once the data had been collected (in this case) by the interview, observational notes were undertaken immediately. This provided an analytical opportunity and was used alongside the qualitative interview notes. Any empirical notes were recorded separately within excel. These notes were used to establish any codes and first-level conceptualization. The process of conceptualization was undertaken until the core category had been established and applied itself to transcending options, which could be a substantive of empirical theory, emerged from the data. Fawcett & Downs (1986).

### **3.6.1 Semi-structured interviews**

The semi-structured interviews provide flexibility of discussion within the research area and allow data to be collected on a broader outline, whilst ensuring that the main research areas are covered. One approach is for the interviewer to have a guide to the areas that are required to be covered this is referred to throughout the interviews. This can be referred to as an interview guide. However, the interviewee can have a great deal of flexibility on how to reply. Questions could deviate from the outlined schedule and additional questions may be asked due to the interviewer responding to things being said by the interviewees. The same basic questions should be asked using similar wording from interviewee to interviewee. This research method will be more flexible than the structured interviews yet provides more structure than the unstructured interviews. Bryman and Bell (2003).

The structured interview is appropriate for the self-completion questionnaire. The questions are structured and are based on a semi closed-question framework. This can use statistical coding within the analytical findings and allows strong statistical models to be formed. However, the interviewer has limited data collection as the interviewee will only provide the information relating to the question. There may be more data available but which is being neglected and could have been vital to the research as a whole. Creswell and Plano Clark (2011). There is the argument that a flexible approach allows

the interviewer to analyse aspects of the research in more depth. Maylor and Blackmon (2005).

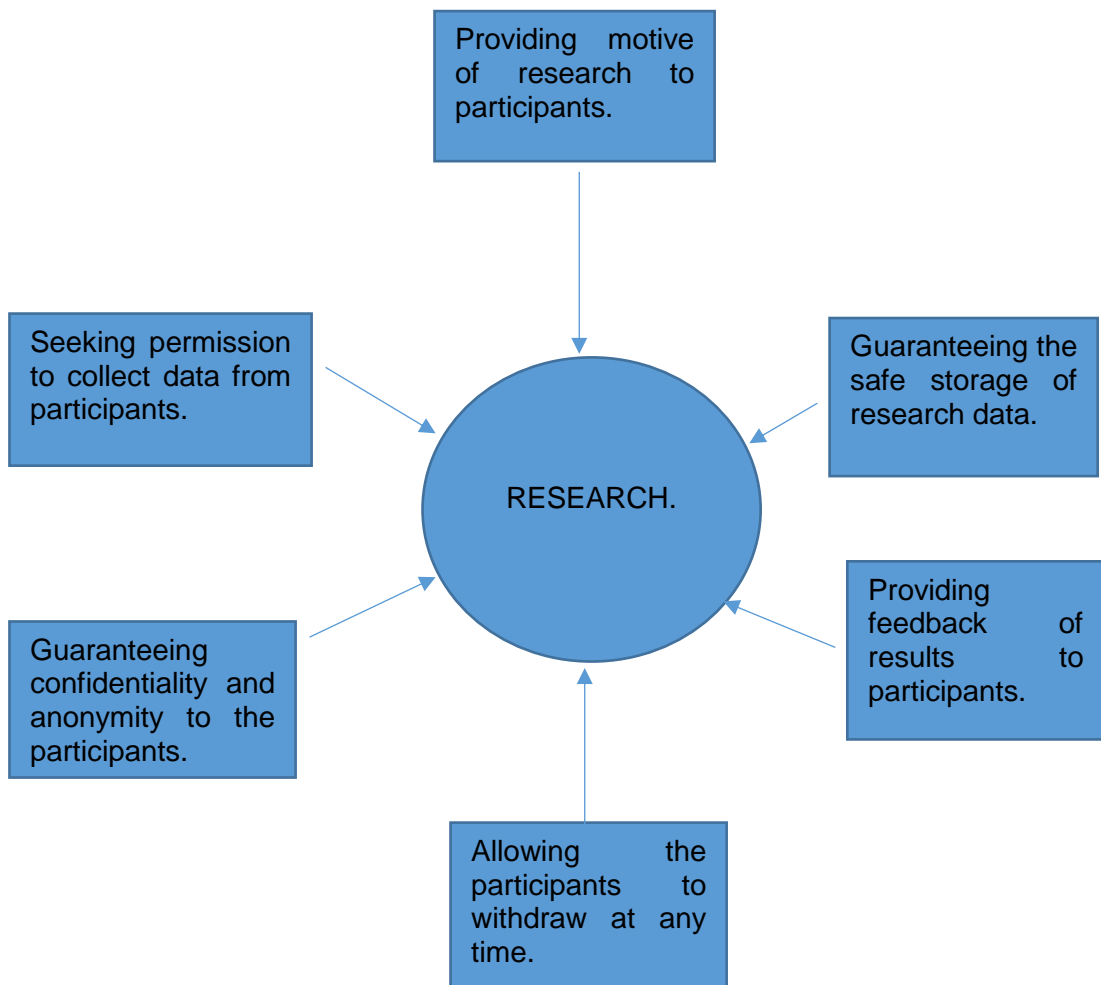
Semi-structured interviews, were used for the collection of research data as it is a good way of obtaining in depth knowledge in relation to the issues provided within the secondary research, thus supporting the secondary findings.

### **3.6.2 Ethics approach**

Ethics is considered in many different forms within research due to the various sources of research undertaken. However, research ethics is a discipline which will run throughout the research process, from the initial planning through the gathering of data to the writing up of the findings. It could be argued that due to the field of accounting and finance being of a professional nature that ethics will be adhered to in every aspect of research undertaken, Smith (2003), with particular care to the following:-



**Figure 3.4 Ethics approach Source**



Source:- Smith (2003) p97

Smith (2003) highlighted the areas of consideration shown in figure 3.4 above, when putting together a research proposal. Each consideration has its own merits, shown by displaying them with equal importance and reflected upon when considering the research method to be undertaken per above.

The research should be transparent and provide a good ethical practice for honest reporting when engaging in accounting research. The research should report the method followed, why this method was undertaken, the procedures and any implications or limitations of the chosen method. Smith (2003). The ethics of the study has been taken into account. Especially due to the calibre of the interviewees and the sensitive nature of the research undertaken.

### 3.6.3 Statistical Method

Statistical modelling needs to be considered when forming a research methodology. It can be an important analytical tool, in particular, in relation to social researchers. If done well it can provide a coherent analysis of the data when investigating complex inter-relationships, for example, between social phenomena and to isolate and making judgements within the research. Tarling (2008). Social science uses statistical modelling for the following reasons:-

- Improvement of understanding to the development of theory.
- Enabling predictions.
- To access the effect of the many different characteristics.
- To reduce the wide dimensionality of the data.

It is often assumed that by developing models they can help to establish the theoretical perspective or they can test the claims of an existing theory. Tarling,(2008). The data comparisons between the secondary and primary sources are developed using statistical modelling to interpretate the data collected. See chapter 7.

The Pearson method of correlation was used when analysing data as it reflects the linear relationship between two data sets and the correlation coefficient  $r$  ranges from -1.0 to 1.0. 1.0 shows a positive linear relationship between the two data sets and -1.0 showing a negative linear relationship. The formula used for the Person product moment correlation coefficient,  $r$  is:-

$$r = \frac{\sum(x - \bar{x})(y - \bar{y})}{\sqrt{\sum(x - \bar{x})^2 \sum(y - \bar{y})^2}}$$

In figure 4.3 page 103:-

Where  $x$  (grey series) = UK international importation of trade and  $y$  (red series) = the UK MFN importation  $r$  = the coefficient of correlation between the two data sets.

Where  $x$  (red series) = UK MFN importation and  $y$  (blue series) = UK GSP  $r$  = the coefficient of correlation between the two data sets.

Where  $x$  (grey series) = UK International importation trade and  $y$  (blue series) = UK GSP  
 $r$  = the coefficient of correlation between the two data sets.

The findings are shown within section 7.3 page 234 Interpretation of findings in relation to MFN, UK GSP and total eligible trade. Maylor and Blackmon (2005).

### **3.7 Results**

When compiling the data organisation is key. By having good organisation the data can be analysed into a framework that can be worked with. The data can be allocated to three categories:-

1. Traceability.

The information should be able to be traced to its source.

2. Reliability.

The transcripts should be a faithful recording of the discussion provided at the interview.

3. Completeness.

All the field notes should be kept for future evaluation.

Maylor & Blackmon (2005).

The results of research tend to be structured within a hypothesis. It has the theory developing concepts and propositions that have evolved from the data analysis. Statistical analysis can be used to test the three hypotheses or to highlight any unique points found within the research undertaken. It can provide a definitive conclusion to a theory and highlight the robustness of the data for each element of the hypothesis undertaken. Fawcett & Downs (1986).

### 3.8 Development of questions

The development of the questions to be incorporated within the semi-structured interviews were carefully considered. This was necessary to ensure that the subject matter would be relevant to the study. Within the academic literature reviewed in the previous chapter, in relation to the GSP utilization, there were a number of categories which became apparent. The most significant of these are highlighted below:-

- Governance of the trade policies
- GSP V's free trade agreements
- Protectionist tool used by the EU in relation to its domestic markets.
- Feeling remote from the policy making process
- Graduation of products coming out of the GSP scheme
- Availability of knowledge
- Administration in relation to the application of GSP
- Use of freight forwarders
- Changes in procedures within HM Customs and Revenue
- Cost Implications in relation to the application

With the significant impact of the UK leaving the EU has on GSP trade, Brexit was included as an additional subject category.

The historical data was examined to see if the above categories were consistently highlighted within the secondary data over the GSP implementation period 1971-2016. It provided the initial platform for the framework shown with 3.10.1. The performance evaluation. With regard to the semi structure interviews the above formed the subject headings for which a further seventeen sub questions were developed to provide an in depth analysis of the issues in relation to the importers view. The questions were developed to allow discussion of the categories while providing structure to the data collected. An example of the framework of questions is as follows:-

Administration in relation to the application of GSP.

Cost of administration of GSP an issue?

Does the country of origin have an impact on utilization?

Is the level of documentation for the suppliers an issue under GSP?

Is the level of documentation for the importers an issue under GSP?

How do you think this barrier could be removed?

The questions provide a mix of structure and semi-structured answers, for example is cost of administration requires a more structured response. However, how do you think this barrier could be removed? Lends itself to a more discursive answer. This provides an excellent level of information to provide structured data in relation to the research undertaken and will support the themes identified within the historical data. The question answers are analysed by reviewing the transcripts and creating a table of questions and answers to form a statistical model. The details of this methodology is shown within 3.10.1.

### **3.9 Development of hypothesis**

The initial development of the three hypotheses was quite straight forward. There was a clear gap in the knowledge identified within the literature when it was reviewed with regards to two issues:-

1. The overall utilization of GSP.
2. Effect of the Most Favoured Nations trade agreements on GSP utilization.

The data collection period started at the end of May, early June 2016, this was just before the UK's 23rd June 2016 referendum on EU membership. At this point importers were happy to take part in the research because they identified with the issues of utilization. Also with the application of the preference and had concerns as to what might happen if the vote to leave the EU actually took place and produced a leave result. Three of the interviews took place before the vote; interviewees were planning both for remaining and leaving to ensure that the impact on their business was minimised. It was clear businesses felt the vote outcome could go either way. Directly after the vote result was known an interview took place; there was uncertainty as to how they were to respond, they were being objective and trying to estimate the overall cost to the business with regards to future international trade. Businesses were therefore very uncertain as to how UK international trade was to continue and this is still the case today in November

2017. The impact was dramatic in relation to the availability of importers wanting to discuss utilization of Generalised System of Preference and its future.

In July 2016 the author was invited to a meeting of the Trade Stakeholders' Meeting in Westminster, London and this allowed access to a further five interviews with leading UK companies and UK sector agencies. There have been four further Trade Stakeholders' meetings from July 2016 to November 2017 and these will continue as they are providing vital information to the UK business sector and government in relation to Brexit and how it is going to affect trade.

However, having reviewed the academic literature it was apparent that the Generalised System of Preference was available to the UK in 1970 before the UK joined the EU in 1973. Thus, with Brexit now going ahead, it provides an opportunity to review the issues in relation to the application of GSP. This may provide a justification for the UK to change some of the EU legislation to allow for easier access to GSP and thus increase its utilization. Within the academic literature it was also highlighted that the application of Most Favoured Nations trade agreements had an impact on the usage of GSP. The following two hypotheses were applied:-

H1 *"The use of GSP has not been fully utilized since its inception."*

H2 *"Most Favoured Nations (MFN) trade agreements have a negative effect on the utilization of GSP"*

This was investigated in the subsequent chapter with data collected on a secondary bases from UNCTAD articles and EU database. It highlights the utilization rates for the years 1976, 1996 and 2014. Whilst investigating the data further analysis was undertaken to establish if the use of other preferences had any impact on the utilization of GSP. As previously noted the existing literature relates to exporters and LDCs. The new interview data collected from the importers and supports findings within the historical data. Two data sets were combined and to highlight the overall findings. The following third hypothesis was investigated:-

H3 *"Complex rules have prevented the application of GSP".*

Due to the impact of Brexit on GSP trade agreements; the interview data was developed to incorporate discussion on this issue. It provided a review of current insight and speculation with regards to Brexit and the direction Generalised System of Preference could take. This was used to form recommendations from the overall findings.

### **3.10 Dimensions of performance**

#### **3.10.1. The performance evaluation**

When reviewing the Stakeholders in connection with GSP the overall analysis would take multiple dimensions and, therefore, could provide multiple results. To be able to quantify the data indexation was used to allocate information to six different themes developed by the researcher. This provided a framework for the cross-sectional data analysis. Mason (2002). The themes were developed from reviewing the academic literature and the secondary data used in the historical approach. The six themes which formed the framework are:-

<b>Code</b>	<b>Description</b>
T1	Uncertainty of Politics
T2	Lack of awareness of GSP
T3.1	Poor understanding of technicalities of GSP
T3.2	Good understanding of technicalities of GSP
T4	Erosion in preferences due to usage of other Free Trade Agreements
T5	Cost of application
T6	Complexity of the RoO (Rules of Origin)

These themes were formed from the secondary data, the primary data was collated, within subject areas, and coded as per the interview data, the following six theme codes: (T1 to T6) to allow for cross-sectional analysis of the data from the secondary source to the primary source. Maylor and Blackmon (2005). See appendix 2.

The highest resulting theme codes combining the historical and interview data are summarised as follows:-

<b>Code</b>	<b>Description</b>
-------------	--------------------

T1	Remote from the EU GSP process.
T2	Knowledge barrier with smaller/medium companies.
T3	Education of suppliers.
T4	A movement from GSP to FTAs.
T5	Cost of employing staff.
T6	RoO has an impact on utilization.

Each of these themes hold a varying level of importance for Stakeholders within the evaluation process. Using the cross-sectional approach to analyse the data within the transcripts. Mason (2002), it became apparent that; although some components hold more value than others to individual parties, there is a clear interaction between the six coded themes and the Stakeholder. Therefore a multidimensional approach to the data collected.

The overall results of cross-sectional analysis is shown later in the thesis; Relating Generalised System of Preferences, Quantitative Comparisons and Utilization issues at Company level, Interpretation of the Evidence. See figure 7.1, page 213.



**Table 3.1:- Allocation of six coded themes developed from historical data to subject themes covered in the interviews.**

<b>Coded Theme</b>	<b>Question number</b>	<b>Chapter 5 Importers' Interviews</b>
<b>T1</b>	10A-14	Is GSP treated as a bonus?
<b>T1</b>	12-19	Do you feel remote from the EU GSP process?
<b>T1</b>	15-19	Is graduation an issue?
<b>T1</b>	16-20	Is there an issue with the removal of different layers of GSP
<b>T2</b>	1-3	Do you think smaller/medium companies have a knowledge barrier with regards to how to apply for preference?
<b>T2</b>	13-17	Is corruption an issue in relation to the suppliers from LDCs?
<b>T2</b>	14-18	Is there an issue of the use of the ethical approach when taking benefit from GSP?
<b>T3.2</b>	2-4	Is there an issue with relation to education of suppliers?
<b>T3.2</b>	3-5	Do you use Europa as a source of knowledge?
<b>T3.2</b>	4-6	Do you follow the trade agreements?
<b>T3.2</b>	8-9b	Is the level of documentation for suppliers an issue for under-utilization?
<b>T3.1</b>	10B-14	Is GSP included in the main plan?
<b>T4</b>	17-21	Has graduation been replaced by another trade agreement?
<b>T4</b>	18-22	At the moment is there a move from GSP to Free Trade Agreements?
<b>T4</b>	19-23	Is the Free Trade Agreements customs documentation is similar to GSP?
<b>T5</b>	5-7	Is administration (cost of) in relation to the application of GSP, an issue for importers?
<b>T5</b>	9A-13	Is there a cost of employing staff?
<b>T5</b>	9B-13	Is there an issue in relation to penalties?
<b>T5</b>	11-15	Is cost a consideration above quality?
<b>T6</b>	6-8	Does the country of origin have an impact on utilization?

<b>T6</b>	<b>7-9a</b>	Is the level of documentation for the importer an issue for under-utilization?
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## **Coded Themes identified in Chapter 4; Historical Data – Exporter’s Issues**

- T1 Uncertainty of Politics
- T2 Lack of awareness of GSP
- T3.1 Poor Understanding of technicalities of GSP
- T3.2 Good Understanding of technicalities of GSP
- T4 Erosion in preferences due to use of Free Trade Agreements
- T5 Cost of application
- T6 Complexity of the RoO

Allocation of the six themes to the subject areas covered within the semi-structured interviews.

### **3.10.2. Modelling the performance evaluation determinants**

Within the interpretation of the evidence chapter the two sets of results have been combined to provide a single model for analysis. Using cross-case analysis a matrix, the cross-cutting variables was analysed for the level of frequency to model the results. It provides a percentage of how often a question answered in the interviews is answered within the six coded themes. These were developed from the subsequent chapters provides a statistical model of the issues in relation to the utilization. Miles, et al (2014). The results are analysed within the interpretation of evidence to test claims of existing theories. However, in the historical data numerical modelling investigated the correlation between the MFN preference and GSP preference to test a theoretical perspective that the increased usage of MFN has been considered to have an effect on the utilization of GSP.

### **3.10.3 Historical data - Generalised System of Preference Comparisons of usage since 1970**

A mix methods approach was used in this chapter due to the analysis investigating historical issues in relation to the utilization of GSP over the forty six year period since it was first used by the EU. The issues raised were provided by the following sources:-

Peer reviewed literature from the 1970s to the current year (2018) in the form of relevant books and journal articles.

Included within the literature was quantitative information, provided from reputable sources, mainly from UCTAD, along with up-to-date data from the Eurostat database. During the researching of the data there was no one data source that covered the entire implementation period 1971 - 2016 so data was collected from different sources and adjusted to be comparable GSP utilization was established for the years 1976, 1996 and 2014. The data line was to follow a twenty year analysis, 1976, 1996 and 2016, however, the 2016 utilization figures had not yet been made available on the Eurostat database and the 2014 figures were the latest available. This was deemed to be acceptable as the missing 2 years represented 10 percent of the 20 year time period from 1996 to 2016.

The six themes developed throughout the qualitative analysis of the literature review for utilization issues from 1976 to 2014 provided a platform for the modelling within the interpretation of the results, which undertakes to use the interview data to support the analysis provided within the historical data.

During the process of developing the data in this chapter and to provide evidence as to the extent of the issue of utilization, the Eurostat database was used to compare the UK GSP Import data from 2000-2014 with that of the MFN zero rate UK international trade. To investigate a suggestion from the qualitative analysis within the chapter that GSP was being underutilized due to the application of MFN and this approach was undertaken to examining theory. The original results (stated in Euros) and were adjusted for inflation, using the Office of National Statistics (UK) 2017, and converted into USD, using the OECD (2017) database, to make the information comparable with data collected before the Euro became available.

The mixed research approach methodology has provided flexibility to the analysis undertaken and the data is modelled to provide an understanding between the qualitative and quantitative data.

#### **3.10.4 UK importers interviews - Generalised System of Preference Utilization, Company Interviews and qualitative evidence.**

The methodology undertaken in this chapter was a qualitative one. Semi-structured interviews were undertaken to support the issues identified in the historical research in relation to the utilization of GSP. The interviews were semi-structured since, as a method, it provides flexibility within the data collection process and allows additional data to be collected if it comes available. The semi-structured questions were formed from the study of data undertaken in the literature and historical sources. Each interviewee was also asked their opinion on the Brexit issue, this was unstructured and provided some very interesting views. The interviews undertaken were aimed at top level management who had an in-depth knowledge of the GSP scheme. Nine interviews were undertaken from various industry UK sectors:-

Two from the retail sector.

Two from the manufacturing sector.

One from the pharmaceutical sector.

One from a manufacturing sector association

One from a retail sector association.

Two from a UK consultancy.

This allows for a good insight into the issues with regards to the utilization of GSP from UK importers which will then provide support to the issues raised in the historical data. The semi-structured interviews allowed for flexibility when discussing the issues which lead into Brexit and how commercial businesses are reacting to leaving the EU. Therefore, it provided a good platform for analysis and allowed the data to be up to date with current issues that arose during the data collection period, June 2016 to July 2017.

Confidentiality was an issue that had to be considered before approaching the interviewees; many would not want to be interviewed if it was not confidential. The following approach was undertaken:-

- All companies remained anonymous, having their name replaced with a letter for identification e.g. Company A.
- A full transcript of the meeting was typed and presented to the individual via email.
- Individual was asked to confirm via email that they were happy for the transcript to be used.

The transcripts were then used for the data analysis.

Grouping of themes was undertaken throughout the transcripts by using subject material under the general questioning being asked. From these groupings they were then collated with the themes developed from previous findings within the historical data to provide supportive comparisons with the exporter's secondary data.

Larger companies have become global and in doing so are including more smaller and medium size businesses within their supply chain. Companies are more innovative on how they corporate with each other and education is shared. Wilson (2006). This has allowed larger companies to be able to have more understanding with regards to the smaller suppliers, for example importation issues as it can hold up the supply chain and effect the larger companies business. The use of technology has been instrumental in allowing businesses of various sizes to be able to work together. Sorbie (2012).

Associations interviewed had access to small and medium sized company members. The consultants had a wide client base which includes small and medium sized companies. One interviewee was a medium sized company. Therefore within the semi-structured questions the interviewees were asked to comment on smaller/medium companies approach to the application of preference.

### **3.11 Stakeholders**

The Stakeholders identified within the research are the following:-

- LDC Exporters
- UK Importers
- European Union

The LDC exporters have a valued interest with regards to the GSP scheme as it is a way for them to access the EU and develop their country's economy through trade as per the WTO remit. UK importers are able to develop their products at a reduced cost allowing them to be competitive within the EU and the Global Supply Chain. The European Union seeks to provide trade that is in line with the WTO legislation and be able to source cheaper imports, but they control the level of importation, via graduation and allocation of GSP on individual product lines as well as LDCs. The EU's importation tariff revenue is reduced by using the preferences and they are often accused of protectionism. Grossman & Sykes (2004).

### **3.12 Selecting the sample for analysis**

Historical data GSP utilization issues.

Selecting the sample for data analysis was initially difficult, due to the difficulty of finding relevant data. The National Statistics web site only has data from 1998 onwards, so the later data was more accessible. Data from the 1970s when the UK was using GSP prior to being an EFTA member and the early years of the UK membership of the Common Market is an issue. However, there were journals that covered the effect of the growth of use in relation to GSP and the level of utilization in relation to importation within the UK and the EU. These journals were peer reviewed and the data used was from UNCTAD. Due to the fact that GSP has been used from 1970 to date, it became appropriate to collect data at regular intervals, where available, to see the effect of GSP on importation and if utilization was being increased. Data therefore, formed a time line of:-



\* 2016 Data not available at time of writing.

To gain access to data was very difficult; for older data the author has relied upon peer reviewed sources whose data, at the time, was developed from UNCTAD database. From 2000 onwards data was sourced from Eurostat, an EU database. All data was converted to US dollar currency. This was chosen because the Euro was not in place during the earlier period investigated, pound sterling was not used as it was felt that the US dollar is the global currency and many LDCs supply goods in US dollars. The exchange rate was from the web site OECD (2017). The results were adjusted for inflation (see figure 4.3 page 103), using the inflation rates sourced from web site of the, Office for National Statistics (UK) (2017).

### **3.13 UK leaving the EU (Brexit)**

Brexit was considered within the interviews. Many of the interviewees wanted to comment on how Brexit could affect their international trade. This is due to the UK having the renegotiate its trade agreements after it leaves the EU. The transcripts were analysed for the following common subject themes:-

Is there interest in the referendum?

Concerned with the limited number of experienced UK government officials in International Trade.

It will take longer than 2 years to negotiate the trade aspect when the UK leaves the EU.

Uncertainty for UK business in relation to Brexit.

Would the EU customs system be available?

Uncertain to the outcome of the vote.

Will the UK be considered as a global economy?

Will the UK continue with GSP?

Are UK businesses concerned that Brexit will increase costs?

Businesses are suggesting that a transitional period will be negotiated.

GSP could improve under the UK domain.

EU customs law transferred into UK customs law.

The above categories were allocated to the six subject themes to allow statistical modelling. This provides an excellent way to relate the transcript data to the current GSP application. It is used to suggest if the UK could develop its own GSP scheme and the improvements that could be made to increase utilization of the GSP trade policy. This is discussed in detail within 6.7.

### **3.14 Summary**

This chapter provides a general overview of the research epistemological and methodological approaches to the application of social science research. It justifies the use of an interpretivist approach, combined with a deductive methodology in relation to the primary and secondary data. Using the six layers identified within the research onion developed by English (2010), the chapter shows how the conceptual theories are developed to show how the combination of secondary data can be supported by primary data in the form of semi-structured interviews. The methodology of processing the data was to develop a conceptual theory which incorporated six themes from the secondary data provided by the historical research. Each theme was coded, and the interview questions used in chapter 5 grouped. The interpretation of evidence statically analyses the findings to provide an overall theoretical perspective. The research also considers the current climate with regards to Brexit, however, this is not the main concept of the research undertaken. Within this chapter the research methodology has shown how the research philosophy and theory has influenced the overall research approach and strategy. The time horizon had an impact on the collection of data and lead into the development of the three hypotheses. This chapter provides the platform for the subsequent chapters within which the three hypotheses are tested and leads to discussion of the key issues from which significant conclusions will be drawn.



## **Chapter 4 Historical Data**

### **4.1 Introduction**

Previously within literature review of the thesis it has been discussed, the many issues in relation to the utilization of GSP from the exporter's angle and this has shown a gap in the knowledge as to identifying the areas of concern in relation to the importers who have to apply for the GSP when the goods enter the EU. Over the time period of the GSP usage there have been various explanations as to why there might be an issue in relation to GSP utilization. The research for the chapter has been restricted due to the difficulty to obtain statistical data in relation to the 1970s – 2010. The EU statistical data has improved with time, but its availability of data is limited to more recent statistical information. This has been an issue for previous studies in this field, Low et al (2009). However, the data that has been used are peer reviewed journals, academic books and reputable sources for example United Nations Conference on Trade And Development (UNCTAD).

GSP provides LDCs access to the European market by allowing their goods to enter the EU with either a reduction of import duty or to apply a zero import duty rate. However, when reviewing the academic literature it is very clear that there are many different aspects that form the GSP. Some of these are discussed within this chapter and identified as possible reasons why current importers may have issues when applying GSP.

GSP was first introduced by the UNCTAD in 1964. A special committee on preferences carried out consultations from 1968 to 1970 to investigate the details of the GSP system. Historically the developing countries encouraged the idea of preference, as it helped to boost their economic growth. This transformed into the generalized system of preferences (GSP) in the 1970s. Breda dos Santos et al (2005). GSP was implemented by UNCTAD resolution early 1970. It did not happen immediately but the GSP schemes were put in place over a succession of years. The GSP is a non-reciprocal, non-discriminatory system of preferences in favour of developing countries and includes special measures in favour of the least advantaged among the developing countries, which are now known as lesser developed countries, (LDCs). These measures are:-

- 1:- To increase export earnings.
- 2:- To promote industrialisation.
- 3:- To accelerate their rates of economic growth.

Developing countries can declare to be entitled to GSP. However, donor countries are allowed to implement their own terms. It could be argued that some of these terms have not been to the benefit to the LDCs. For example:- the exclusion of developed countries via graduation. With the role of tariffs declining and General Agreement on Tariffs and Trade, (GATT) not looking to increase tariffs, donor countries are using non-tariff barriers as an instrument to control trade. The commonwealth preferences were not phased out until the mid-1970s. Weston et al (1980). The US argued at the time that the preferential agreements implemented by the EC were harming US trade as a number of European countries were using their colonial past to promote trade links using the preferential agreements. The US declared that this was unfair, however the EC argued using statistical evidence that the amount of goods concerned was small and therefore the US trade if effected was limited. Bhattacharya (1976).

The main emphasis of the chapter will be examining the European scheme and, where it can be identified, the UK element of the European scheme. Over the following forty six years there have been further developments of the GSP scheme. The chapter will review historical data to discover how the GSP has progressed and highlight areas which have shown to be of concern when utilizing the GSP since its initiation in 1971. The EU GSP utilization figures are considered for the years 1976, 1996 and 2014. The periods provide an approximate 20 years sequence, however, 2016 figures were not available when the research was undertaken and therefore the latest available data was used.

The assumption by academics that the rise of Most Favoured Nations (MFN) used by the EU has helped to reduce the use of GSP is investigated using data from Eurostat (2013) and the findings shown in euros, then adjusted for inflation and finally converted into US dollars. To make the data constant with the GSP utilization since 1976, as the euro was not available at this point.

The structure of the chapter will consider the development of the GSP over the forty six years and will measure the MFNs trade to GSP trade, as well as the EU GSP utilization.

## **4.2 Developments of Generalized System of Preference since implementation**

The UK had incorporated the GSP scheme since its inception in 1971 and adopted the EEC GSP scheme when the UK became a member in 1974. Every twenty years, 1976, 1996, and 2014, (2016 not available at the time of writing). The data was reviewed in relation to the GSP utilization percentage. This provides in depth research knowledge to establish the utilization percentage. Highlighted within the academic literature was the increased usage of MFNs and often academics, Weston et al (1980), Inama (2003), Seyoum (2005) and Bureau et al (2006) to name a few, have used this as a reason for the utilization decreasing within GSP. Within 4.4 of the chapter this is investigated further to justify if this is the case as this could have an impact on the data collected from the supporting interviews. The purpose of the research is to identify reoccurring issues over this time period which will highlight the main reasons as to why GSP is not necessarily being fully utilized. As previously discussed due to the little research undertaken using importers data, this research will be supported by the data collected within the semi-structured interviews of UK importers within the subsequent chapter.

The following section of the chapter will be split into four different time periods of:- 1970-1980, 1980-1990, 1990-2000 and 2000-2017. The time periods covered ten year periods until 2000 to enable even analysis of the historical data. The final period 2000-2017 covering seventeen years was due to the data being more available and comparisons could be made more easily. The development of the GSP is examined and areas which are considered to be of issue are highlighted. This will establish any reoccurring themes which are considered to be issues when using the GSP. Correlation of these themes highlighted over the last forty six years to current UK importers findings are considered within the interpretation of evidence section of the thesis.

#### **4.2.1 Generalized System of Preference developments 1970-1980**

The EECs first implemented the scheme in 1971. Within three years GSP was undertaken by:-

Japan, Norway, Sweden, Denmark, Finland, Ireland, New Zealand, United Kingdom, Switzerland, Austria, Australia and Canada. The United Kingdom, Denmark and Ireland joined the EEC on 1 January 1974. The USA implemented GSP on 1 January 1976. Therefore the UK had incorporated GSP within its trade policy before becoming a member of the EEC and is independent of EU law at this point in time. Weston et al (1980). Breda dos Santos (2005) and Iqbal and Allen (1975). The UK scheme was deemed to be an important part of the UK international trade strategy at the time. Interestingly at the time of the UK joining the EEC there were concerns that as the EEC grows the GSP will have a more strict application policy, replacing the more liberal GSP scheme provided by the UK. Iqbal and Allen (1975). At this time the UK GSP scheme was very generous and during the transition period of joining the EEC there was a gap between the EEC GSP scheme and the UK GSP scheme. The UK at the time of negotiation had more imported from developing countries than the EEC. The UK encouraged exports from Commonwealth developing countries with many having duty free tariffs under MFN which had to be addressed within the EEC system and many having duties put on their products that exceed the tariffs that at the time were being applied by the UK. This discouraged exportation and investments, this is opposite to what users intended. Cooper (1972).

The new system formed in the 1970s of GSP meets the demands of developing countries but maintains the multilateral trading principles. To be able to grant product access for identified products from LDCs without the reciprocal liberalization, there is an argument that GSP was a positive step towards to a more balanced and global trade. Breda dos Santos (2005).

The EEC's GSP scheme considers promotion of exports from lesser developed countries and works in two parts:-

1. To provide larger market access using GSP to create trade.
2. To allow trade diversion from more developed countries to Lesser Developed Countries. (LDCs).

This was a positive move by the EU from the LDCs point of view as it provided them with the opportunity to develop their economy and progress out of poverty. However, the EU would not want to encourage GSP at the detriment of EU business. The two main issues highlighted at the time for GSP:-

- The MFNs were frequently being used and it was suggested even at this time, that they would reduce the overall trade opportunities which GSP was incorporated for. Weston et al (1980). To extend this further, Iqbal and Allen (1975), were concerned that the GSP margins would suffer erosion from MFN.
- There was an issue with the EEC domestic industries having their trade affected by the trade diversification outside the EEC. This has led to forced restriction on trade-diversification for their protection and including the GSP scheme. The EEC applied strict regulations within manufacturing regarding the volume of the LDC imports received. Initially member states would try to allocate evenly between EEC member states, to distribute the GSP between exporting countries to prevent efficient LDC exports taking advantage of ceiling levels. Weston et al (1980). The quantitative limitations used by the EEC has effected the LDCs by making their competitive products less exportable and it could be argued that the GSP has been ineffective. Iqbal and Allen (1975), suggested that donor countries should consider relaxing some of the restrictions to allow more benefit to the LDCs.

In order to protect its own markets the EU has derived market classifications of products to limit the amount of goods imported on GSP. The three classifications of European GSP Scheme:-

1. Sensitive
2. Semi-sensitive
3. Non-sensitive

The sensitive classification will have tariff quotas to enable protection of home market, in particular the textile market.

The semi-sensitive classification are subject to tariff ceilings, but are not under the member state share system, but are subject to community surveillance. Once a ceiling has been met the GSP will continue until the member state requests that full duty should be imposed. Non-sensitive products have ceiling limits, they are not published or pre-calculated by the EEC. The ceilings are very large and the GSP will offer duty-free access on most non-sensitive products. Weston et al (1980) and Brenton and Manchin (2003).

The agreement which allows all countries who are classed as developing to benefit from the new GSP agreement was deemed to be too advantageous and would impede home markets. The industrialized countries therefore are able to exclude any country that it decides to be unacceptable with regards to the tariff concessions. The EU was the first GSP donor to apply the quantitative limitations and it has been argued that this forms strong protectionism. Breda dos Santos, et al (2005). This argument is developed further as the EEC has the ability to suspend GSP if importation of goods causes major disruption to the domestic market. It can also protect the interests of countries which have special preferences under agreements with the EEC. The EEC has used the GSP quantitative limitations by changing the levels of importation annually in the form of graduation. Weston et al (1980). The European preferences embodied within the Lomé Convention, (1975), incorporated provisions which did not benefit all the LDCs, due to the terms of GATT not being conformed to and these provisions could be allocated to special and differential treatment. Howse and Trebilcock (1999), p.373. Kennedy (2012), further argued that the EU preferential trade is complex and has many limitations and conditions which were supposed to either deter or reward LDCs conduct. Due to this it could be implied that it is deterring LDCs engaging in the GSP scheme. Breda dos Santos et al (2005) commented that the European preferences entwined within the Lomé Convention 1975, had conditions that did not benefit all the developing countries as they arguably were not able to conform to the GATT terms.

When the UK entered into the European Economic Community there was to be a transitional period of five years from 1 January 1973. The UK GSP during this period was not included within the EEC negotiations and the UK continued to apply their more

generous GSP scheme. Cooper (1972). Tariffs on goods between the 10 countries would be removed using graduation method. I.e. five stages of 20 per cent each; the first being on 1 April 1973 and the last on the 1 July 1977. The Common External Tariff was introduced as four stages. Stage 1 aligning on 40 percent of differences, 1 January 1974. Three more stages of 20 per cent were implemented on 1 January 1975, 1 January 1976 and 1 July 1977. The products concerned were twelve industrial raw materials and tea. The UK used the Common External Tariff and had some exceptions to the UK's imports from Commonwealth manufacturers. Paxton (1976). The EEC has enlarged over time. (See Appendix 1). The GSP schemes provided by the UK, Ireland and Denmark stopped operating on 1 January 1974. The EEC member states adopted the EEC scheme. GSP lends itself to quantitative and qualitative approaches. With the EEC becoming larger the administration the more complex. The ceilings and quotas were re calculated and jumped discretely. However, the Danish and UK schemes had less resources for restrictions. Weston et al (1980). At the time there were concerns that the EEC enlargement had a dramatic impact on the GSP scheme due to moving from the more liberal UK GSP scheme to be replaced by the EEC GSP scheme which has strict rules; for example the rules of origin. This was deemed to be a continuing issue as the EEC had planned to enlarge. At the time it was predicted that if the EEC GSP was not improved the GSP will lose most of its value by 1977. Iqbal and Allen (1975).

Weston et al (1980). Breda dos Santos et al (2005) have documented in detail the overall history of developing the legal framework in relation to GSP. The following legal details have been drawn from these documents. The EEC was discovering new ground in 1971. While by 1974 ten OECD nations had also implemented GSP. One of the largest, the USA, undertook GSP in 1976. The EEC during this time suggested that the GSP proposals made improvements each year since 1971. But with the world economy slowing down from 1974 the EEC found the GSP to be an economic challenge. Employment at this time was a great issue and therefore protection of vulnerable industrial sectors was the priority. A number of industrial goods were introduced within the sensitive category and were subject to tariff quotas. Since 1979 a new scheme allows GSP to be allocated to individual supplier countries by quota shares. The legal standing of GSP at this point was legitimised under International Trade law. However, only in extraordinary cases, could GSP be described as 'negotiated' between the donor and the recipient. Due to the fact that there is no legal commitment on the part of the EEC to maintain the preferences and market access to the LDCs as a whole for a fixed

duration; the donor has the option to offer a preference. This was the case when GSP was being formed and the main principle of the preference, i.e. discriminatory. Originally article 1 of the GATT policy in relation to GSP was waived in June 1971 for 10 years. At this time it was thought that the preferential terms would not be required. LDC exports did increase in the 1970s and therefore the consensus was to continue to support GSP. During the Tokyo round of multilateral trade negotiations in 1979 the GSP was changed from having article 1 waiver to incorporating GSP to have formal recognition within GATT. However, the GSP was still not made legally binding. This allowed the GATT contracting parties to agree to perpetuate the GSP due to the waiver. Breda dos Santos et al (2005). GATT incorporated an enabling clause which came out of the Tokyo Round and established differential treatment in relating to developing countries within the integral part of the GATT systems. In the main this enabling clause allowed the graduation of countries or product lines which are deemed to have attained a good level of progress by the donor countries. Breda dos Santos et al (2005). This underpins the legal basis for the tariff preference provided within the GSP. The initial years of uncertainty when the GSP was being formed as well as, the uncertain legal base at the time meant that it did not necessarily encourage LDCs exporters to trade. Weston et al (1980). Breda dos Santos et al (2005).

Weston et al (1980) considered that the administration will become more complex as the EEC becomes larger. Interestingly, Langhammer (1983) commented, in his working of Germany's GSP application, that the administration of the GSP scheme has had an impact on implementing GSP when available on imports. The application of the rules of origin and the availability of form A, GSP certificate has been an issue in the first ten years of application. Many imports, although would qualify for preferential duty rates have in fact had full duty paid on the goods at the point of import. There has been an issue of exporters during these first ten years, having the GSP-induced export market of the EU have enhance the fraudulent documentation from the GSP exporting countries. If the correct documentation is not provided at the point of import into the EU then full duty is paid. There has been a naive approach to the rules of origin, again with the exporters. Weston et al (1980) commented that documentation is key within GSP and imports have to have to be certified within the rules of origin, (RoO).



Langhammer (1983), predicted that there will be implication of stricter origin controls, this will be a costly and an unproductive use of resources. In turn it would make the importation of GSP goods to the EU importer less attractive. This was also highlighted by Iqbal and Allen (1975) who predicted that the use of GSP would lose its value by 1977. Weston (1980) argues that due to the GSP becoming more complex it has made MFN a more favourable option.

In addition to the complex application of GSP Iqbal and Allen (1975), highlighted from their research of importers/exporters between November 1972 and March 1973 when the UK GSP was implemented, that a number of importers and exporters were not aware of GSP. If the importers were aware there were issues with the exporters not being able to meet the increase in demand.

#### **4.2.2 Generalized System of Preference developments 1980-1990**

The first renewal of the GSP took place in 1981 with few changes and was to run for ten years until 1991. A review of the GSP was scheduled for 1991, however, the review was not until 1994 due to the inclusion of the Uruguay Round. Switzer (2008). The GSP had little further development within this time period.

Common Customs Tariff when introduced was approx. 11 per cent. After the Tokyo rounds this became an average of 7.5 per cent within the Community by 1987. Once the UK joined in 1973, (EEC GSP was incorporated by the UK on 1 January 1974), the tariffs on industrial trade within the Community and EFTA were removed over time and by 1984 a free-trade zone became operational. The Lomé Convention granted duty-free access to the EU in relation to manufactured exports from African Caribbean and Pacific Countries (ACP) via MFN. With regards to the Generalized System of Preferences the Community offers each year a certain amount of free access of manufactured exports from all developing countries. The community uses a number of instruments to curb imports in relation to protecting the domestic market. For example anti-dumping and anti-subsidy measures, safeguard and surveillance procedures and voluntary export restraints. Pearce, et al (1986). Following on from Tokyo the developing countries

decided to try and block the ideas promoted by the donors in particular graduation. The response from the donors was to have domestic reforms and have a new trade round to form better access for GSP. The developing countries level of exports in 1950 was at 31 percent but by 1985 the exports had fallen to 23.8 percent, due to the developing countries feeling excluded from the Tokyo round. Since the mid-1980s they rely on negotiations base on semi-reciprocal concessions. Breda do Santos et al (2005).

It has been argued that one of the most used instruments to curb imports are the rules of origin. The rules of origin are complex and can impede the availability of preference. A high level of goods have their full duty paid due to the goods not having the correct paperwork to fulfil the rules of origin. To be able to cover the rules of origin there is an administrative cost element which may deplete the value of the duty claimed. For example if the duty is 4 percent or lower then very often the application of GSP is ignored as it will cost more to apply. Herin (1986).

Appendix 1 shows the EU membership expanded by the following countries:-

1981 Greece.

1986 Portugal, Spain.

#### **4.2.3 Generalized System of Preference developments 1990-2000**

The utilization of the EU GSP scheme by LDC's exports have come to the fore with regards to the utilization rate. In particular with the non-ACP LDCs as low as 41 percent for 1994. This increased to 48 per cent in 1996; but dropped to 26 per cent in 1997, UNCTAD (2003). Brenton and Manchin (2003), commented that the GSP scheme utilization in 1999 was only one third of the imports from eligible countries of approximately 31 percent. This was with the EU product coverage of 99 percent of goods from developing countries. It is surprising as in particular within the clothing sector the EU tariff is 12 percent, this is a significant amount of cash saving being missed to the importer.

The value of GSP imports was approximately 65 billion USD in 1997, this amounts to 22 percent of the value of the total imports. There should be consideration on the actual

revenue that the EU has forgone of approximately US\$ 1.6 billion. The EU GSP is the largest among the schemes currently in operation. During 1995 the EU revised the GSP scheme and removed quantitative limitations of GSP qualifying imports and devised tariff modulation in the form of classification of goods into four categories:-

<b>Category</b>	<b>Tariff reduction</b>
Very Sensitive	15%
Sensitive	30%
Semi-sensitive	65%
Non-sensitive	100%

This became effective from 1 January 1995 in relation to the industrial products and from 1 July 1996 for agricultural products. UNCTAD (1999). Brenton and Manchin (2003). Hoekman & Özden (2006).

The rules of origin are complicated and can make it difficult for export companies to be able to comply and this results in full duty being paid. The market access for the developing countries becomes limited. Brenton and Manchin (2003). The issue of the rules of origin was highlighted within Stevens and Kennan (2004) as often being the item which prevents the preference being utilized. Grether and Olarreaga (1998), argued that the compliance of the rules of origin has a cost in relation to the application and this could be higher than the potential saving of duty.

There is an argument that if the GSP scheme is too complex then goods will be exported under MFN. Erosion of preferences, from the use of MFN and the reduction of preferential margins may adversely reduce the growth of exports from developing countries. Yamazaki (1996). Due to the cost of the rules of origin when applying for GSP exporters prefer to export using MFN or to apply the full duty rate. Grether and Olarreaga (1998).

Since these changes have been introduced in 1995 the graduation policy became more to the fore and had an impact on the LDCs. There is an argument that MFNs are used instead of GSP due to the graduation risk. Breda dos Santos et al (2005).

The EU graduation policy enables the EU to exclude certain countries product lines from having GSP, for specific sectors. They base the decision on the combination of an export specialization. This is based on the ratio of the beneficiary country's share of the EU total imports within a sector and the share of the total EU imports in all sectors. Using a development index covering the country's per capita income and total exports as compared against those of the EU. The EU has use of graduation was progressively implemented over the period 1995 to 1998. Over the same period the product coverage for the industrial products dropped from 73.5% in 1994 to 66.9% in 1997. Although overall the EU list of products covered within the GSP scheme has virtually remained unchanged, with specific countries being excluded from GSP for some specific products. It could be argued that this has contributed to a drop in the ratio between total imports and covered imports. UNCTAD (1999).

The UNCTAD (1999) highlighted that the utilization rate of the use of GSP has increased constantly over the period 1994 -1996, from 48.9 per cent (1994) rising to 57.6% (1996). The exception to this is a drop in utilization in relation to a major LDC beneficiary, Bangladesh (48.5 – 27.4 per cent). There is inconstant policy with regards to the product mix imported from beneficiaries and the product coverage in relation to industrial goods for LDC beneficiaries. Another finding from the UNCTAD (1999) report is that the utilization rates are generally low for LDC. Utilization had decreased for a number of GSP schemes. One of the reasons of low utilization due to the protracted uncertainties, highlighted the importance to have stability and predictability of trade preferences. This would enable the preference to become more effective with traders and investors. There a number of reasons for the under-utilization for example:-

Uncertainty.

Lack of awareness.

Understanding of the technicalities of the schemes by Exporters of developing countries.

Erosion in preferences to make the cost of application too expensive.

The complexity of the Rules of Origin and their restriction.

These issues have been highlighted by the UNCTAD in respect of exporters from the LDC, they have not considered the EU importer and their views on the application of the GSP.

UNCTAD (1999) suggested the following reforms of the GSP to enable exports from the LDCs to increase within the EU:-

Expand product coverage.

Increase the depth of tariff cuts.

Simplify the Rules of Origin.

Essential to have more technical education to create awareness and understand the GSP schemes.

UNCTAD (1999) stated that the Secretariat has launched a GSP website to enable awareness to be more available and to provide technical and detailed information to LDC exporters. Breda dos Santos et al (2005), suggested that despite trade liberalization undertaken within the 1990s there is still the issue of the developed countries being able to conform to common objects among themselves without out necessarily to the best interests of the LDCs.

#### **4.2.4 Generalized System of Preference developments 2000-2017**

The GSP system has had a number of developments from 2000 and continues to be used by a number of LDCs and developing countries to gain access into the EU. The impact of which is the lost income with regards to reduction of the import tariff when goods enter the EU. For example the EU's import value was 57 billion euros in 2007 which is an increase of approx. 12 percent on 2006 which was at 51 billion euros. This follows an increase of 10 percent between 2005 and 2006. The cost to the EU with regards to import duty forgone with the application of GSP was 2.5 billion euros in 2007. Townsend (2008). It implies that importation of goods under GSP is still a large concern in relation to the EU and LDCs.

During this period there have been issues regarding the withdrawal of the GSP+ by the EU from LDCs due to humanitarian issues. Examples of this happening are Myanmar and Belarus who are temporarily withdrawn from GSP preferences as they have issues with human rights, covenant on Civil and political rights and torture. Sri Lanka had their GSP+ withdrawn but has had it reinstated. Townsend (2008).

There is still concern with regards to the utilization of the preference and how exporters are using it to gain access to the EU market. The EU, in response to the low utilization, developed the Everything But Arms agreement to assist the LDCs further and this is included within the GSP scheme. It came into effect on the 5 March 2001. The main objective is to provide duty free access and quota-free market access to all products excluding arms, bananas, sugar and rice, where the duty will be phased out over a period of time. So now, under the EBA, the textiles and products are granted duty-free level, the rules of origin are very strict and can be difficult to apply. This has had an effect of the utilization of importation to the EU; the utilization of EBA within textile and clothing was 45 percent in 2001 and 56 percent in 2002. Approximately \$1.6 billion of exports were levied at 10 percent MFN average instead of the zero duty rate. UNCTAD (2003).

Overall the use of preferential tariffs, which on the face of it are looking good for the utilization of LDC goods imported to the EU, show that there are many tariff codes which are underutilized. The UNCTAD (2003), highlighted that the Rules of Origin and the administration to be applied when adopting the preference have not changed since the 1970s. Studies carried out by the UNCTAD (2003) from within the developed countries highlighted the cost of 3 percent, on average, of the value of the goods has to be covered by the importer/exporter before the benefit of the zero duty can be effective. The LDC beneficiaries' cost of applying the rules of origin has reflected on the utilization of the preference. Some suggested reasons would be that the level of EU import duty on some of the lines are lower than the cost of claiming the preference. For example it is difficult to comply with the rules of origin (RoO), as the product is made up of various parts from different countries, which complicates compliance to the rules of origin. Therefore manufacturers and exporters may choose to export to the EU under MFN conditions rather than use the preference. Evenett (2008), commented that the utilization and overall impact of GSP could be affected by the administrative costs that are undertaken to obtain the preferences reflects in the level of preference that is utilized. For example, if the import duty saving is below 4.5 percent then the preference is not applied for. Candau and Jean (2006) suggested the utilization of the preference is lower for tariff margins at 3 percent or below and Machin (2006) would have the utilization threshold at 4 percent. Nilsson and Matsson (2009) concluded that there is a relatively high use of the EU GSP for imports that have import taxation lower than 4 percent.

To justify further the themes the UNCTAD (1999) highlighted the following reforms:- of Uncertainty; Lack of awareness; Understanding of the technicalities of the schemes by Exporters of developing countries; Erosion in preferences to make the cost of application too expensive and the complexity of the rules of origin and their restriction. McQueen (2007) highlighted that there are many factors that should be considered when comparing the preference margin and the utilization rate. These factors are shown as:-

Traders' Knowledge of the scheme.

Exporters not aware of the preferences.

Underestimation of compliance costs.

Djankov et al. (2006) confirmed the issue of the technical requirements relating to the importing countries as a reason for avoiding the use of preferences, as well as administrative inefficiencies when exporting goods. Candau and Jean (2006) argued that the underutilization of preferences is due to the restrictions in relation to the RoO. Townsend (2008) further strengthened the argument by commenting that the RoO for the EU are relatively strict and they need to be improved for GSP to have less of a trade barrier to exporters when exporting to the EU. The commission proposed from the 1 January 2013:- rules are based on value added, change of tariff heading or specific processing requirement according to the case.

### **4.3 Summary of main issues identified**

The research carried out thus far has highlighted that over the forty six years from 1971 to 2016, that the GSP has been applied that a number of issues have repeatedly been raised. These issues, summarised below, show that GSP has been questioned over the forty six years as to its utilization and academics have tried to establish why; mainly from the exporters view point rather than the importers view.

### **4.3.1 1970-1980**

The UK incorporated GSP within its trade law in 1971, before joining the EEC on 1 January 1974. The UK GSP was therefore being utilized independently from EEC legislation during the time period 1971 – 1974. Weston et al (1980), Breda dos Santos et al (2005), Iqbal and Allen (1975). At the time the UK scheme was deemed to be an important part of the UK international trade strategy. When the UK was negotiating to join the EEC in 1972-73 there were concerns that as the EEC grows the GSP will have a more strict application policy, due to more countries involved within its policy making; replacing the more liberal GSP scheme provided by the UK. Iqbal and Allen (1975). The UK was one of the first countries to undertake the GSP system which was formed to enhance developing countries' economies through trade, granting product access, without reciprocal liberalization, provides the argument that the GSP was a helping to create a more balanced global trade. Breda dos Santos (2005).

It is worth noting that the UK GSP scheme was more generous than the EEC GSP scheme at the point of the UK entry to the EEC. The UK at the time of negotiation had more imported from developing countries than the EEC. The UK had strong trade links with its Commonwealth developing countries who enjoyed duty free trade tariffs under GSP and MFN. This had to be addressed to comply with the EEC trade policy on joining in 1974; many Commonwealth developing countries became subject to tariffs that exceeded the UK normal tariff rates. There was concern that it would discourage exportation. Cooper (1972).

Since joining the EEC in 1974 there have been issues with the application of the EEC GSP scheme. There has been a strong argument that the preferential trade application is complex and has limitations and conditions. Howse and Trebilcock (1999), p.373. Kennedy (2012), Breda dos Santos et al (2005). In turn this encourages the use of MFNs and therefore could reduce the GSP trade. Weston et al (1980).

Concerns over the EU increasing in size and making a more complex administration system in relation to GSP. Weston et al (1980), Iqbal and Allen (1975) and Breda dos Santos et al (2005).



Application of rules of origin too complex that full duty was paid at point of import rather than apply for GSP. Langhammer (1983). Iqbal and Allen (1975) and Weston et al (1980), both suggested that, due to the complexity of the RoO, trade will revert to MFNs.

Rules of origin will become stricter as the EU grows and therefore will make unproductive use of resources and make the GSP more costly, thus making MFNs more attractive. Langhammer (1983).

Weston et al (1980) also commented that rules of origin are certified and play a key role when importing under GSP. Langhammer (1983), commented further on the requirement that certification has to be on the appropriate paper.

Quantitative limitations are used by the EEC to protect domestic markets, thus changing the level of importation due to graduation. Weston et al (1980), Iqbal and Allen (1975); Breda dos Santos et al (2005).

#### **4.3.2. 1980-1990**

The first renewal of the GSP took place in 1981 with few changes and was to run for ten years until 1991. Switzer (2008).

There was an increase of 63 ACP granted by the Lomé Convention for the EU to allow duty-free access with regards to manufactured exports using MFN. (Pearce, et al, 1986). EU GSP continues to offer a limited amount of free access of manufactured exports from all LDCs, however, the EU implements a number of instruments to be able to limit imports to protect the EU domestic market including graduation. (Pearce, et al, 1986).

Arguably another instrument of protection is the use of the rules of origin. There is an administrative cost which reflects the level of duty to be reclaimed from GSP. The smaller the amount the more likely full duty will be paid instead of utilizing GSP. Herin (1986).

LDCs decided to block the donor's restrictions and in response the donors agreed to review the process to encourage better access for GSP. Breda dos Santos et al (2005).

### **4.3.3. 1990-2000**

In 1995 the EU revised the GSP and the quantitative limitations were removed. In their place the GSP goods classification was developed from three categories to four. UNCTAD (1999).

Within this time period where the utilization of the EU GSP scheme by LDCs was low with approximately only one third of eligible goods using the GSP scheme. UNCTAD (2003). Brenton and Manchin (2003). The rules of origin have been cited as an issue that has effected the application of the GSP scheme and limited the market access of the developing countries. Brenton and Manchin (2003); Stevens and Kennan (2004).

The graduation policy is still enforced by the EU. From 1995-1998 the EU was active in using the graduation policy and the industrial product coverage for GSP fell from 73.5% in 1994 to 66.9% in 1997. UNCTAD (1999). As the graduation policy was utilized more Breda dos Santos et al (2005) argued that the use of MFNs increased.

A number of GSP schemes are low for LDCs. One reason identified is the uncertainty of the trade preference. Other reasons considered are; lack of awareness; understanding the technicalities; erosion of the preference to make application cost too high and the complexity of the rules of origin. UNCTAD (1999).

### **4.3.4. 2000-2017**

Some tariff codes are well utilized; equally there are many tariff codes which are not. The rules of origin and the complex administration were highlighted as the reason for this. UNCTAD (2003).

Cost of application of GSP is three percent on average before the zero duty can be applied. In particular the cost of applying the rules of origin has impacted on the use of the preference; the supply chain has developed using parts from different countries and this has complicated the rules of origin. The LDCs could prefer to export using MFN because of this complexity. UNCTAD (2003).

Administrative costs were also highlighted by Evenett (2008) as a reason for underutilization. For example, if the tariff concerned was 4.5 percent then the cost factor makes it a marginal benefit. Candau and Jean (2006), Machin (2006) also considered this point.

Other issues highlighted by McQueen (2007) within this period, while investigating the utilization rate against the preference margin, was trader's knowledge of GSP; with exporters not being aware of the preference and underestimating compliance costs.

Djankov et al. (2006), Candau and Jean (2006) and Townsend (2008) all commented with regards to the application of the RoO continuing to be an issue for compliance. They concluded that the EU should review the RoO to allow greater utilization of GSP by having a reduced trade barrier for LDC exporters when supplying goods to the EU.

The UNCTAD (2003) further suggested that \$1.6 billion of exports had a 10 percent average levy within the MFN rather than trying to satisfy the RoO within GSP which would have applied a zero duty rate.

## **4.4. Quantitative Analysis**

### **4.4.1. Erosion of GSP due to the use of MFN**

Within this summary of main issues, the using of MFN rather than GSP was identified a number of times as being a reason for the GSP not being utilized. Due to this factor being used throughout the forty six years; the research will now look into quantitative findings with regards to the erosion of GSP due to the use of MFN, as it has been commented on by academics through-out the life span of EU GSP, Weston et al (1980), Townsend (2008). The erosion issue was highlighted in 2.5, under the sub-heading "Utilization of preferences accessing into the EU", which discussed the issue that exporters may utilize the MFNs as they can appear to be more advantageous than using GSP. Hiratsuka et al (2008). The issue of the increase in MFNs is also a consideration; as it is probable that the use of GSP will fall as a consequence. Seyoum (2005). Townsend (2008), noted that the ten year GSP cycle started in 2006 and the EU acknowledged that the overall value of the GSP was being reduced and preference

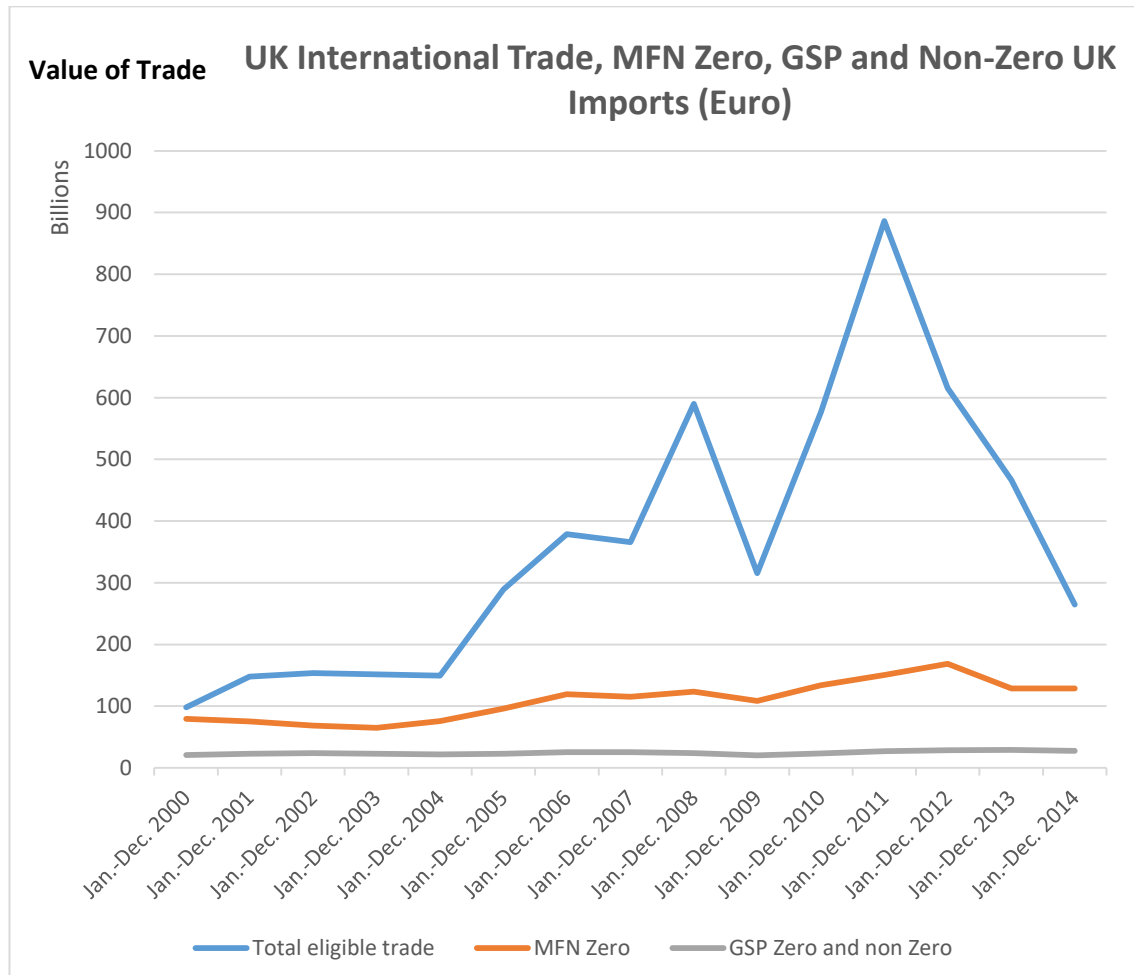
erosion is an issue due to the MFN tariffs being negotiated through multilateral trade agreements.

To establish how much the MFN tariffs are eroding the GSP usage statistical data was obtained from the Eurostat web site and a database, which was formed in 2013 providing information up to 2014, regarding the International Trade undertaken by the EU members in relation to MFN imports and GSP imports for the UK. These two import preferences are considered against the UK International Trade figures. See figures 4.1, 4.2, 4.3 and 4.4, pages 101-105.

The link between the levels of preference undertaken in relation to the total UK eligible trade is reviewed to establish if there is a correlation between the MFN total eligible trade and the GSP total eligible trade. Figure 4.4 page 104, shows the effect of this comparison.

The GSP is scrutinized to review the levels of utilization over 2013 and 2014, to evaluate the level of GSP within the total trade undertaken by the UK. Figure 4.5 page 105, shows this element. Finally within the quantitative analysis the total utilization of GSP is shown as a percentage over the 1971 – 2016 period within figure 4.7 page 107.

**Figure 4.1. UK International Trade Compared to UK MFN imports and to UK GSP Imports 2000-2014.**



Source:- Eurostat (2013).

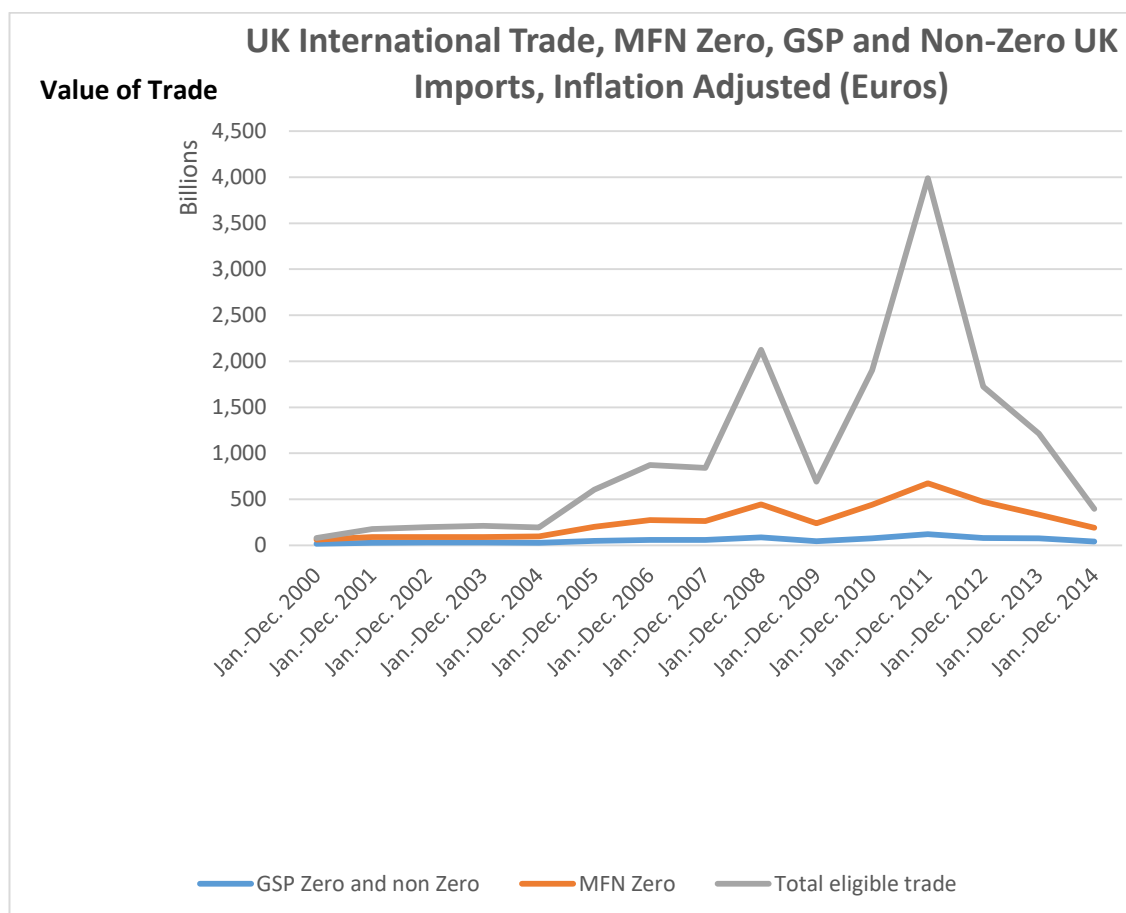
Figure 4.1 above, reviews the UK international trade.

The trade line is at 151 billion euros which is down slightly from 153 billion, euros but MFN is showing a down turn in utilization in 2002/2003 to 64 billion euros from 68 billion euros in 2001/2002. During this period the GSP remains at a constant level so the evidence is showing a different result at this point. Therefore the assumption made by many that MFN has a direct impact is not necessarily correct. Thereafter the MFN follows the increase in trade line. Overall trade has increased in this area to just under 900 billion

euro of which the MFN imports at zero duty peaks as 170 billion euro compared to 30 billion euro of imports from GSP covering zero duty and reduced duty. It shows that the preferential trade is a small percentage of overall trade.

Surprisingly while the MFN imports although dropping slightly in 2003, increased year on year peaking at 2012 at 170 billion euro, but dropped to 128 billion euro in 2013, starting to increase again from 2014, while the GSP imports remain at a constant level. It is clear that MFN imports are gathering momentum in relation to the increase in international trade. These results provide an argument that this contradicts Nilsson and Matsson (2009) who commented that there could be a large share of the imports are entered into the EU under the MFN-0 tariffs, and therefore the GSP utilization is affected by the increase up take of MFN implemented by the EU. Another view would be that the level of trade has increased and the MFN has followed this trend, but GSP utilization is lower at peak time and therefore GSP utilization has in effect reduced, which agrees with Nilsson and Matsson's prediction.

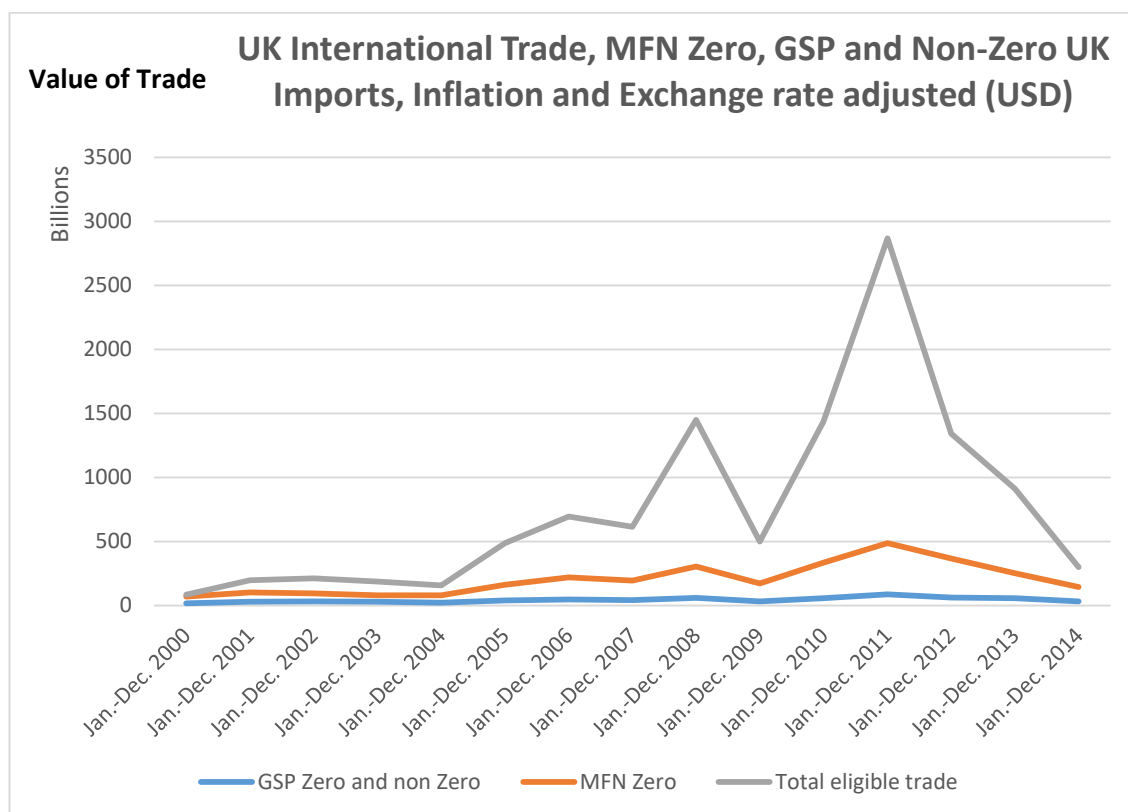
**Figure 4.2. UK International Trade, MFN Zero, GSP and Non-Zero UK Imports, Inflation Adjusted.**



Source, Eurostat (2013) and Office for National Statistics (UK) (2017)

There is a concern that these figures are based on the information provided by the UK customs' documentation filed by companies to the UK Revenue and Customs, who in turn file them with Eurostat. These figures are just the trade figures for each period and inflation has not been taken into consideration. Figure 4.2 above, shows the trade figures with the inflation rate adjustment rates taken from Office for National Statistics (UK), accessed 28 August 2017. The overall results have not changed when considering the overall impact of inflation. It is noticeable that in 2011 MFN rose to 676 billion euro and at the same time trade peaked at 4000 billion euro, GSP also followed the trend by rising from 76 billion to 122 billion euros.

**Figure 4.3. UK International Trade, MFN Zero, GSP and Non Zero UK Imports, Inflation and Exchange rate adjusted.**



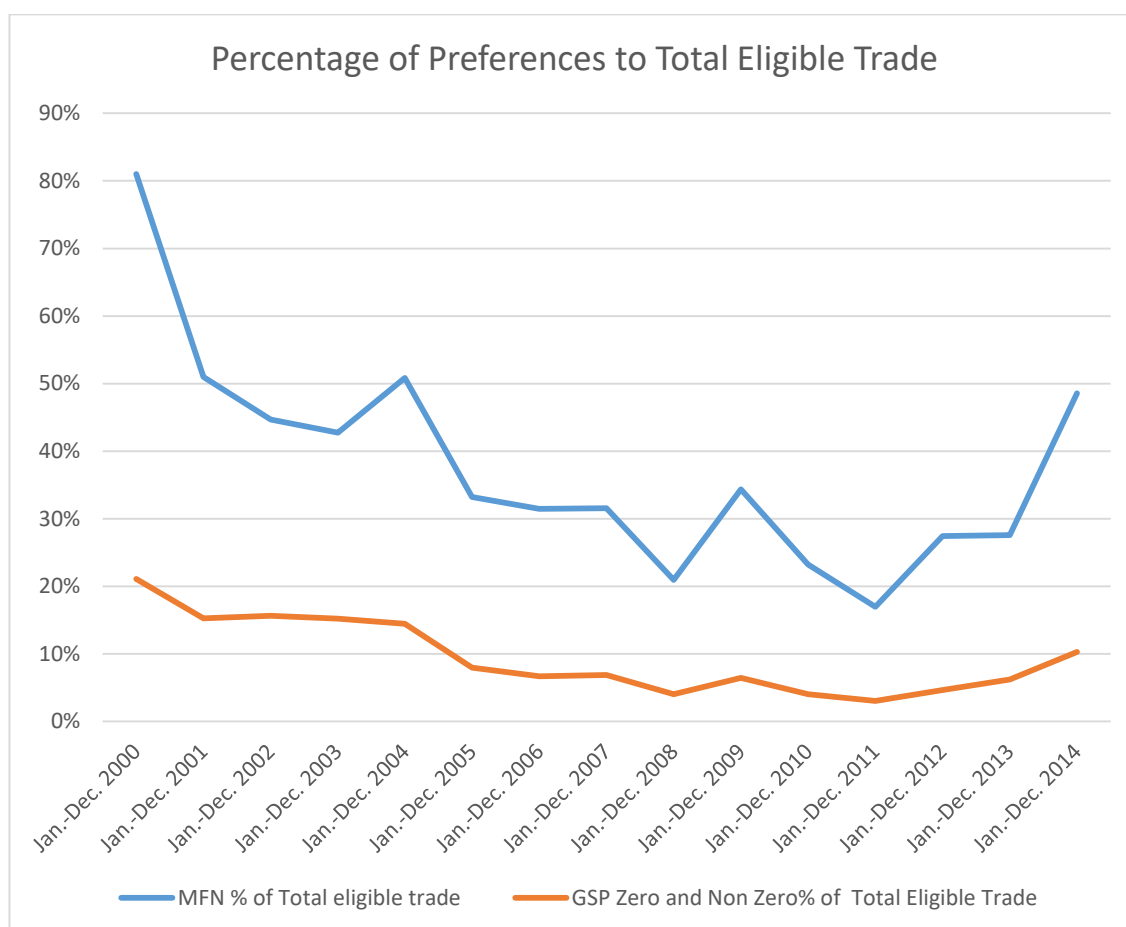
Source:- Eurostat (2013), Office for National Statistics (UK) (2017) and OECD (2017).

There is an issue when reviewing these figures that the value of the trade is shown in Euros. The Euro did not exist when looking at comparisons from the 1970s. The currently of USD is applied due to this currency dominance on the global markets and therefore it provides a comparative figures to the imports into the UK from suppliers who mainly invoice in USD.

Therefore the results have been updated for inflation and the exchange rates between the euro and USD to ensure global comparability. Reviewing the results of figure 4.3 page 103 shows the trend analysis comparable to figure 4.2 page 102.



**Figure 4.4 Percentage of Preference Schemes in relation to MFN Total Eligible Trade for the UK.**



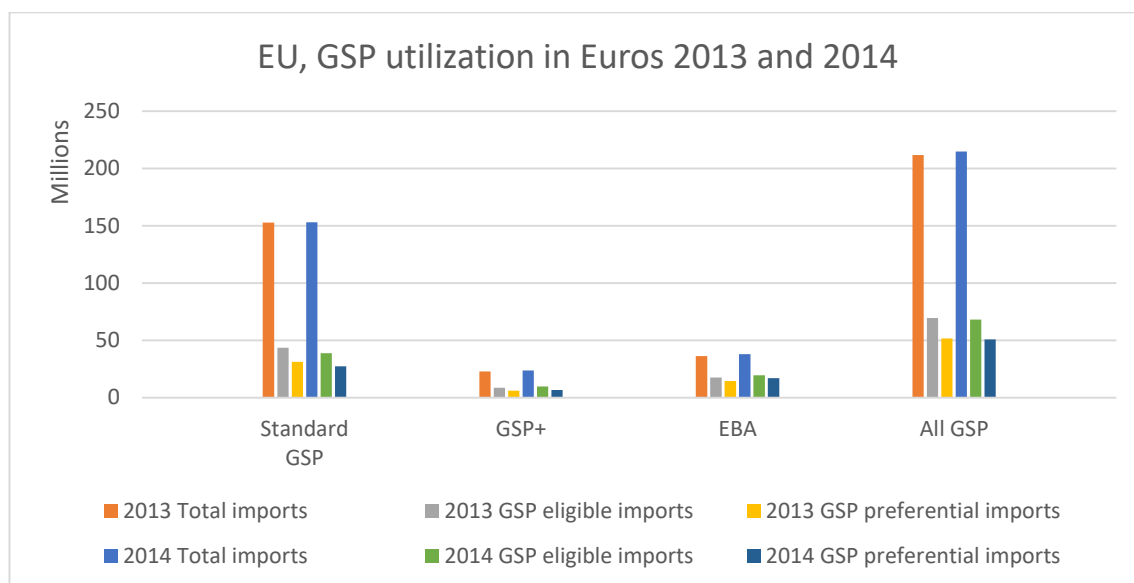
Source:- Eurostat (2013), Office for National Statistics (UK) (2017) and OECD (2017).

Figure 4.4 above, compares the two preference schemes MFN and GSP as a percentage of the UK trade. Although the results here are shown graphically the trend is complex and can be simplified by an investigation of the correlation between data sets. See Section 7.3. When reviewing the two percentage lines there is correlation between the GSP total eligible trade and the MFN total eligible trade as they on the whole rise and fall at similar points. Analysing the lines in more detail; GSP was at its second lowest at 4 percent within 2008 and is shown as the second lowest point for MFN at 21 percent, when international imports for the UK also fell. This is the point of time when the financial crisis took effect. At the start of the data in 2000 UK import trade was low and the

preferences had a greater impact with the MFN at 80 percent utilization, which is very high, while 20 percent of trade utilized GSP. The effect was that the majority of importation trade was covered by a preference. In 2011 the GSP dropped to 3 percent of international imports for the UK and the MFN fell to 17 percent. It could be due to the large increase in international trade which outstrips the MFN and GSP; making the two preferences less significant in relation to the volume of trade. In 2014 the GSP preference rose to 10 percent and MFN 49 percent, this suggests that preference is starting to increase their utilization within UK imports. Although MFN has followed the international trade fluctuations within figure 4.3 page 103, a wide gap has developed between the imports into the UK and the imports under preference. During this time period the GSP has also fluctuated but the MFN has had more dramatic fluctuations from 82 percent to 17 percent over the 14 year period. This confirms Nilsson and Matsson's (2006) observation that the scope for the use of preferences can be limited; the fact that they can have a high or low utilization is of less importance. If the consideration is with regard to the level of imports undertaken and to examine the proportion of imports entering the EU/UK from LDCs under preference. The overall share of dutiable imports and the share of imports eligible for preferences is undertaken before analysing the rate of preference utilization.

#### 4.4.2. Measure of utilization of GSP

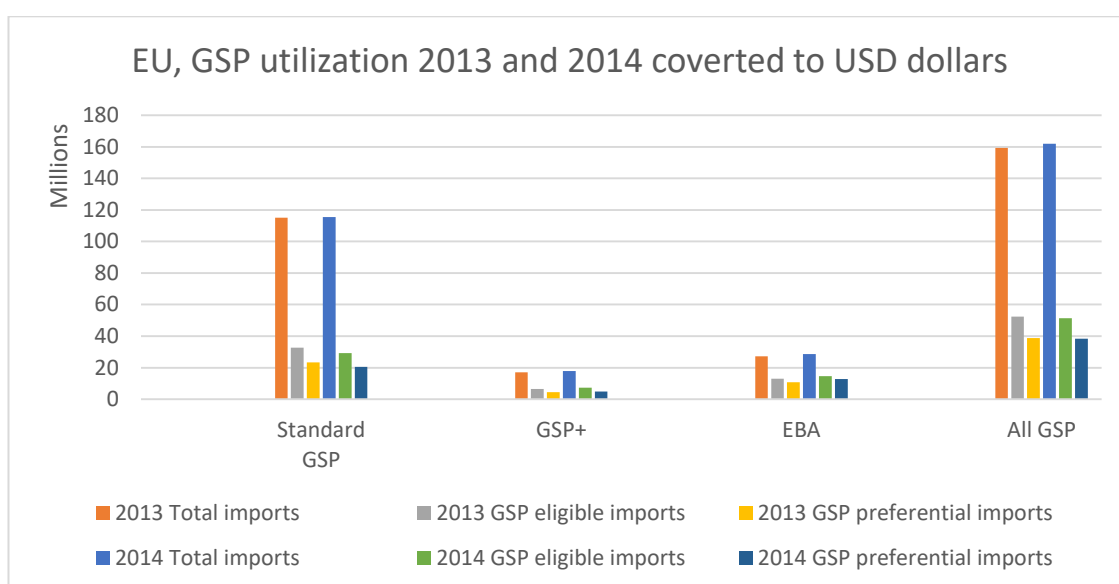
**Figure 4.5. EU GSP utilization 2013 and 2014 (in Euros).**



Source:- European Commission, 2016.

Figure 4.5 page 105, was calculated using euros as a base, this was converted into USD, figure 4.6 below, using OECD exchange rates to allow readers to compare with the 1976 and early 1990's utilization shown in figure 6. The USD currency was chosen as this is the global currency used by suppliers who import to the UK. The findings in relation to figure 4.5 page 105, are commented on within figure 4.6 below.

**Figure 4.6. EU GSP utilization 2013 and 2014. (USD dollars).**



Source:- European Commission, 2016 and OECD (2017).

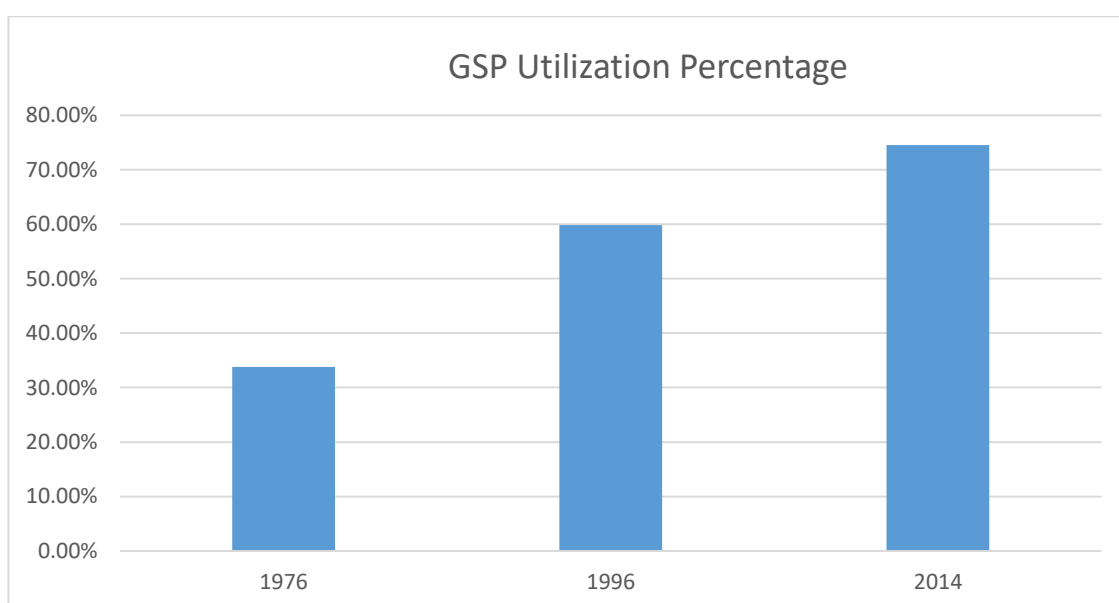
Figures 4.5 page 106 and 4.6 above both show that in 2013 and 2014 there is an issue with goods being eligible for GSP but not actually being imported into the EU as qualifying for GSP; therefore possible full duty is being paid. In 2013 the amount eligible was USD \$52 million, 2014 USD \$51 million but coming in under GSP both years was USD \$38 million, for so although the utilization percentage was 73 percent (2013) and 75 percent (2014). There is USD \$14/\$13 million which is eligible but not succeeding in obtaining the preference. This highlights a gap between the imports eligible for GSP and the actual preference applied for. This helps to prove that there could be an issue with the utilization in relation to the application of the GSP. The results in figure 4.6 page 106, provide a more in depth view of the GSP percentage shown in figure 4.7 page 107, in relation to 2014.

**Table 4.1 Percentage of GSP eligible trade to EU imported trade.**

Year	EU Total Imports (USD millions)	GSP Imports (USD millions)	Percentage
2013 All GSP	159	52	33
2014 All GSP	162	51	32

The results of the all GSP shown in figure 4.6 page 106, are analysed further within table 4.1 above. The level of eligible GSP trade in 2013 is 33 percent showing that GSP is a significant international trade agreement, however, the eligible GSP dropped by one percent in 2014. This should be monitored to see if this trend is to continue. These results justify further that the trade undertaken with developing and LCDs is considerable and therefore the GSP will have an impact on their economies.

**Figure 4.7 Total GSP Utilization Percentage for 1976, 1996 and 2014.**



Source:- UNCTAD (1979), UNCTAD (1998) and European Commission (2016).

Figure 4.7 page 107, shows the utilization of GSP from 1976 to 2014. The utilization has increased from 34% overall utilization in 1976 to 75% utilization in 2014. In 1976 the countries to which GSP applied was 111, Commission of The European Communities (1976), this increased through the 1990s and by 2014 the number of beneficiary countries was 177. Europa (2015). The breakdown of the 2014 results are shown within figure 4.6 page 106. This highlights the growth in global trade and therefore the preference usage is increasing, the overall utilization could be higher. The 25 percent of trade that is eligible for GSP but not being claimed will amount to a considerable financial sum as highlighted within the findings in 4.4.2; although it shows that utilization is improving there is still scope for this to increase.

There is an issue obtaining statistical data specific to GSP utilization from the EU and academics have commented as follows:- Low et al (2009) tried to investigate the utilization rates but due to the scarcity they found in obtaining comprehensive data in relation to the utilization rates the research was limited. When reviewing the data the value of the imports eligible for the preference was measured against the value of imports that actually received the preference to calculate the percentage used in figure 4.7 page 107. As highlighted within the literature, Aiello and Demaria's (2009), approach defined the utilization of trade preferences as the ratio between the value of imports receiving preferential treatment and the value of total imports eligible for the preference. They concluded from related literature that the EU GSP is underutilized. (Inama, 2003; Low et al., 2009).

## **4.5. Conclusion of the Qualitative results.**

Throughout the literature in relation to the issues of the utilization of GSP from the 1970s onwards there has been a number of themes which keep being referred to by various academics for example, Weston et al (1980), Inama (2003), Seyoum (2005), Brenton and Manchin (2003), Herin (1986) and UNCTAD (1999). The main 5 themes identified was the level of uncertainty with regards to the legal process and the lack of awareness of the ramifications of incomplete documentation. Understanding the technicalities of how the GSP is implemented and this relates in particular to the rules of origin. The erosion of the GSP by utilizing other preferential agreements has also been identified as having an impact to the utilization of GSP.

Evenett (2008), Candau and Jean (2006), Machin (2006) and Nilsson and Matsson (2009) all commented within the above research that exporters considered a utilization threshold before they apply for the preference due to the cost of the administration when applying the GSP. Due to the number of academics making comments with regards to cost this is to be incorporated as a sixth theme.

The majority of academic research within these areas are formed from the exporter's views and opinions. Therefore, in the interpretation of the evidence section of the thesis, these themes will be modelled with the views from the interviews of UK importers to establish if the themes have any correlation between exporters and importers as they both use the GSP scheme.

Interestingly, the flow of information to the various GSP stakeholders has been commented on by Commission of the European Communities (2004). The council suggested that they would present proposals early to ensure that traders have time to organise the trade flow and therefore allow more continuity and stabilise the GSP, making it more useful for EU trade. This will be considered within the subsequent chapter to see if the importers have an issue with the flow of information. It highlights the issue of lack of awareness for traders who are using the preference as well as the uncertainty linked to the application of the GSP scheme.

The technical aspects of the application of GSP is provided in many forms from the overall application of the RoO rules to being able to apply the correct documentation. The RoO appears to be having a direct impact on the utilization from the exporters' view and the UNCTAD (2005) were campaigning to have a more harmonized approach. This is still being championed today by the UNCTAD. With regards to the erosion of preferences there are many suggestions that the MFN are being considered instead of GSP and this has had an impact on the GSP utilization. UNCTAD (2003). This has been considered within the semi-structured interviews to see if this is supported by the UK importers. This is tested within the quantitative section 4.4 by comparing the UK International Trade figures, UK MFN and UK GSP from 2000 to 2014. (See figure 4.4 page 104).

The UK had GSP as part of its trade law before it became a member of the EEC and was independent of EU law. Weston et al (1980). Breda dos Santos (2005) and Iqbal

and Allen (1975). It was noted at the time that the UK GSP scheme was more generous to LDCs than the EEC GSP scheme. The UK scheme was deemed to be an important part of the UK international trade strategy at the time. There were concerns that as the EEC grows the GSP will have a more strict application policy as more countries will have an input. It was noted, at the time, the UK was considered to be operating a more liberal GSP scheme. Iqbal and Allen (1975). The UK, at the time of negotiation, had more imports from developing countries than the EEC. Cooper (1972).

#### **4.6. Conclusion of the Quantitative results**

The data shown in figure 4.3 page 103, reveals that MFNs correlate with the international trade results and increases and decreases with the international trade. As the MFN encourages global trade this finding is not unusual. While the GSP utilization does appear to remain at a constant level and therefore the overall utilization becomes lower at the high points of trade. This supports Seyoum's (2005) argument that overall the MFN increases but the use of the GSP will fall. However, it is when the percentage of MFN and GSP of the Total Eligible Trade for the UK is reviewed that the value of the figures become clearer. International trade was quite low in 2000 and thus justifies that the MFN and GSP had a greater impact at this point with the majority of trade imported under a preference scheme. International Trade Peaked in 2011 at 900 billion euros, (figure 4.3, page 103), but the percentage of preference usage fell, MFN to 17 percent and 3 percent of GSP. So while the MFN usage is still larger than the GSP at this point in time there is a large amount of trade which is not under preference. This is mainly due to the large increase in global trade and thus makes the preferences less affective in relation to the volume of trade. Nisson and Matsson's (2006) observation is justified by this correlation as they stated that consideration should be made at the level of imports undertaken and the need to examine the proportion which are imported under preference. In 2014 the MFN reaches 49 percent and GSP at 10 percent which suggests that the preferences are aligning with the increase of the global market imports. Therefore contrary to the assumption that MFN has an impact on utilization of GSP trade, Seyoum's (2005), GSP is following Total Eligible Trade for the UK and does not appear to be influenced by the increase use of MFN. As the MFN increases so does GSP which is opposite to expectation that as the MFN is more utilized GSP usage will decrease. Bureau, Chakir & Gallezot (2006).



Figure 4.4 page 104, the percentage of GSP total eligible trade, does have some correlation to the MFN total eligible trade as both lines increase and decrease at similar points. The GSP and MFN line shown within figure 4.3 page 103, provides an overview of the preferences against the total eligible trade. The GSP and MFN lines shown in the figure 4.4 page 104, show a more detailed view of the GSP and MFN lines. When examining the GSP and MFN lines in figure 4.4 page 104, there is some correlation between both preferences. Within figure 4.6 page 106 the amount of trade and the amount of trade that is eligible to GSP again is significant for 2013 and 2014. The 2013 and 2014 utilization shows 73 percent for 2013 and 75 percent for 2014 with the overall percentage as 72 percent. Although this is high there continues to be a gap in the utilization of eligible trade and the amount actually applied for. Following on from these results table 4.1 clearly shows that with the GSP eligible trade resulting in 33 percent for 2013 and 32 percent for 2014 the GSP has a significant role within the EU's international trade. The developing and LDCs will be reliant on this level of trade as it will have an impact on their economies.

The issue of the level of data available with regards the utilization of the preferences from 1976 onwards is problematic. The data obtained through the UNCTAD and the European Commission provide a credible source of information. The GSP utilization percentage in 1976 was at 34 percent, in 1996 it rose to 60 percent which is a dramatic increase. This increased further to 75 percent in 2014. The GSP utilization is increasing over the years from 34 percent in 1976 to 75 percent in 2014. There are many reasons for the increase in utilization. The first ten years of the scheme saw low utilization, which relates to the global trade being lower at this time. With the increase of trade and technological advances allowing global trade to be similar and quicker, there has been an expansion of the global supply chains, allowing businesses to utilize more of the lesser developed economies and in turn increasing GSP.

## **4.7 Overall conclusion.**

The findings within this chapter relate mainly to the exporter's view. The qualitative research within sections 4.2.1., to 4.2.4., has shown that there are a number of issues which have been problematic throughout 1971-2016 period of GSP implementation. The qualitative research undertaken has provided an in depth review of academic

reasoning provided over the forty six years, as to the issues that have been linked in relation to the underutilization of GSP. These reoccurring issues have been modelled into six themes which have been used to establish any correlation to the research undertaken within the semi-structured interviews of UK importers. This is used within the subsequent chapter providing further support to the data shown above.

The quantitative findings show that the GSP does provide a stable level of preference throughout the large fluctuations of international trade, however, the MFN does appear to be more effective with regards to encouraging global trade and has correlation with the UK International Trade results. There is an argument that the MFN has not had the significant impact on the GSP utilization as first thought. The GSP has remained constant throughout from 2000 to 2014. To counteract the argument that because the MFN has increased and the GSP has not increased then the MFN has had an impact on the GSP utilization. When the MFN has fallen the GSP has remained constant and therefore using the same principle the GSP has, in fact, increased its utilization and there is a possible argument that the GSP has had an impact on the MFN utilization. However, as the MFN is in correlation with the international trade then there is the expectation that it is the level of international trade that has caused this impact on the MFN not the GSP. As the GSP has on the whole remained at a constant level, while MFN has increased and decreased, the overall conclusion is that the MFN has not had the impact on GSP utilization that the academics have suggested.

Due to the stability of GSP shown in figure 4.4 page 104, the argument for the UK to consider GSP as a trade policy when the UK leaves the EU is strong. MFNs will take longer to negotiate and therefore UK international trade will fall due to the duty costs rising in the interim period. A UK GSP scheme could be used as a temporary trade policy as it could be implemented quickly due to the non-reciprocal aspect. Within section 4.2.1. the UK had a GSP scheme in place before it was a member of the EEC and therefore would have been incorporated within UK trade law.

The results shown in figure 4.6 page 106 highlight the difference between goods that were eligible for GSP and the goods that were actually imported within the GSP scheme. However, it could be seen as a high percentage as 2013 shows 73 percent and 2014 75 percent. It is important to note that there is USD \$14/\$13 million, 2013/2014, eligible for GSP but not utilizing GSP; there is therefore potential to increase the application of the

preference as this is still a considerable amount. There is a gap between eligible imports and imports applying for GSP; there is considerable financial impetus for this gap to decrease. The utilization percentages over the forty six year period shown in figure 4.7 page 107, illustrates clearly that use of GSP has increased. However, with the GSP in 2014 reaching 75 percent there should still be consideration whether this can be higher due to the statistical data being more available within Eurostat; more research could be undertaken to establish if the GSP within Europe could be increased further.

Although there are many issues highlighted through-out the years that GSP has been used. GSP still remains a significant factor within the EU international trade with developing continues and LDCs. Nilsson and Matsson (2006), concluded that preferences are important to the LDCs as it accounts for approximately 75 percent of their exports. Table 4.1 highlights that in 2014 imports eligible for GSP accounted for 32 percent of EU total trade. The EU preferential imports in relation to the LDCs do make the GSP an important factor within international trade and should be considered by the UK when it leaves the EU.

The UK, having its own GSP scheme within its own trade law independent from the EU before it joined the EEC in 1974, could be of significant interest with regards to Brexit. During this time the UK GSP was a more generous scheme and had more imports from developing countries than the EEC GSP scheme, is encouraging; as it shows that the UK was able to apply and develop trade with LDCs and this could be developed within the trade policy when the UK leaves the EU. The historical findings provide strong evidence that GSP should be considered by the UK Government post Brexit as a temporary trade policy. The stability of GSP shown in figure 4.4 page 104, compared to the use of MFNs show that GSP is capable of fulfilling the role of a preferential trade agreement. GSP is a non-reciprocal agreement and therefore could be utilized as a temporary preferential trade agreement when the UK leaves. Breda dos Santos et al (2005). The UK will have the opportunity to negotiate the reciprocal MFN agreements on a timelier basis and ensure that the MFN agreement benefits both the UK and the beneficiary countries. The UK will have the benefit of developing its own GSP scheme and reflect on the issues highlighted within the history of application of GSP. This will enable a more effective trade preference to be available to UK importers and developing, LDC exporters. English (2016). This will be reflected within the forthcoming Brexit chapter.

The six main issues highlighted within 4.2 will be used as a model for testing against the findings within the semi-structured interviews to see if they are supported by the UK importers. These findings will also be considered when reviewing the preferential trade in relation to Brexit. All the findings within the historical data provide a structured platform for analysis within the forthcoming research in relation to the data collected from the semi-structured interviews, along with consideration of how Brexit will impact the preferential trade agreements.

## **Chapter 5 UK Importer's Interviews**

### **5.1 Introduction**

The data gathered within the historical chapter considered the views from the exporting LDCs and their issues when utilizing GSP. The importers have a significant role within this process as they pay the importation tariff when the goods enter the EU. The goods are subject to H M Customs and Revenue, in the UK, documentation checks and these inspections can be carried out retrospectively. If inspectors find any issues with the documentation then the UK importer can face full duty payment, interest on that payment and possible fines. It seems a most appropriate approach to the research to undertake semi-structured interviews of UK businesses and associations who either use the GSP scheme, have members that use the GSP scheme or provide consultancy to many UK businesses. This allows triangulation support with the findings shown within the previous chapter. It also provides data in relation to the current issues when applying GSP.

When reviewing the data the content of the categories are considered with an ontological approach is to be considered. With regards to indexing the various categories the epistemological approach was reviewed to allow the ontological phenomena to prevail. For example, themes were developed from the interview transcripts. Mason (2002). This is considered within section 5.3 Analysis of Generalised System of Preference issues.

Using the semi-structured interviews was an appropriate approach to this element of research. It allowed flexibility and an opportunity to gather in depth data which provides a detailed analysis of the many issues considered within figure 5.1 page 118, in relation to the utilization of GSP. Nine in depth interviews were undertaken to provide primary data to support the issues in relation to the underutilization of GSP highlighted within the Historical Data. UK importers of Non-EU goods from countries qualifying for GSP were actively sort. The data source consisted of large companies who import using GSP and associations who have a large membership of importers and have a sound understanding of GSP issues relating to Non EU imports. See the following breakdown:-

<b>Company</b>	<b>Type of company</b>	<b>Job title of interviewee</b>
Company A	Large UK retailer	Senior Manager
Company B	Large UK retailer	Senior Manager
Company C	UK Consultant	Director
Company D	UK Medium/Large Manufacturer	Senior Manager
Company E	UK Association Manufacturing sector	Director
Company F	Multinational Pharmaceutical Manufacturer	Director
Company G	UK Association Retail Sector	Director
Company H	UK Consultant	Director
Company I	Multinational Manufacturer	Director

#### **Job tile allocation:-**

1/3 = Senior Managers

2/3 = Directors

#### **Senior manager's role:-**

Dealt with the application of GSP within the supply chain of the organisation.

#### **Company Directors role:-**

Oversee the imports processes within the organisation and direct the application of GSP by the following examples:-

Hirer staff to deal with the administration of the GSP.

Agree not to apply GSP if there is a possibility of the supply chain being jeopardised.

Are able to lobby if required.

#### **Association Directors role:-**

Act on their membership requirements with regards to GSP.

Are able to lobby if required.

Activity in touch with their membership from SME's to large companies.

Provide advice on the application of GSP.

**Consultancy Directors role:-**

Provide advice on the policy application of GSP to their clients.

Clients ranging from UK SMEs to UK Large Companies.

Provide an advisory role to UK Government agents/departments.

All those interviewed were at senior management level and are very experienced within the area of trade. The interviews were approximately 1 to 2 hours in length which yield a large amount of data.

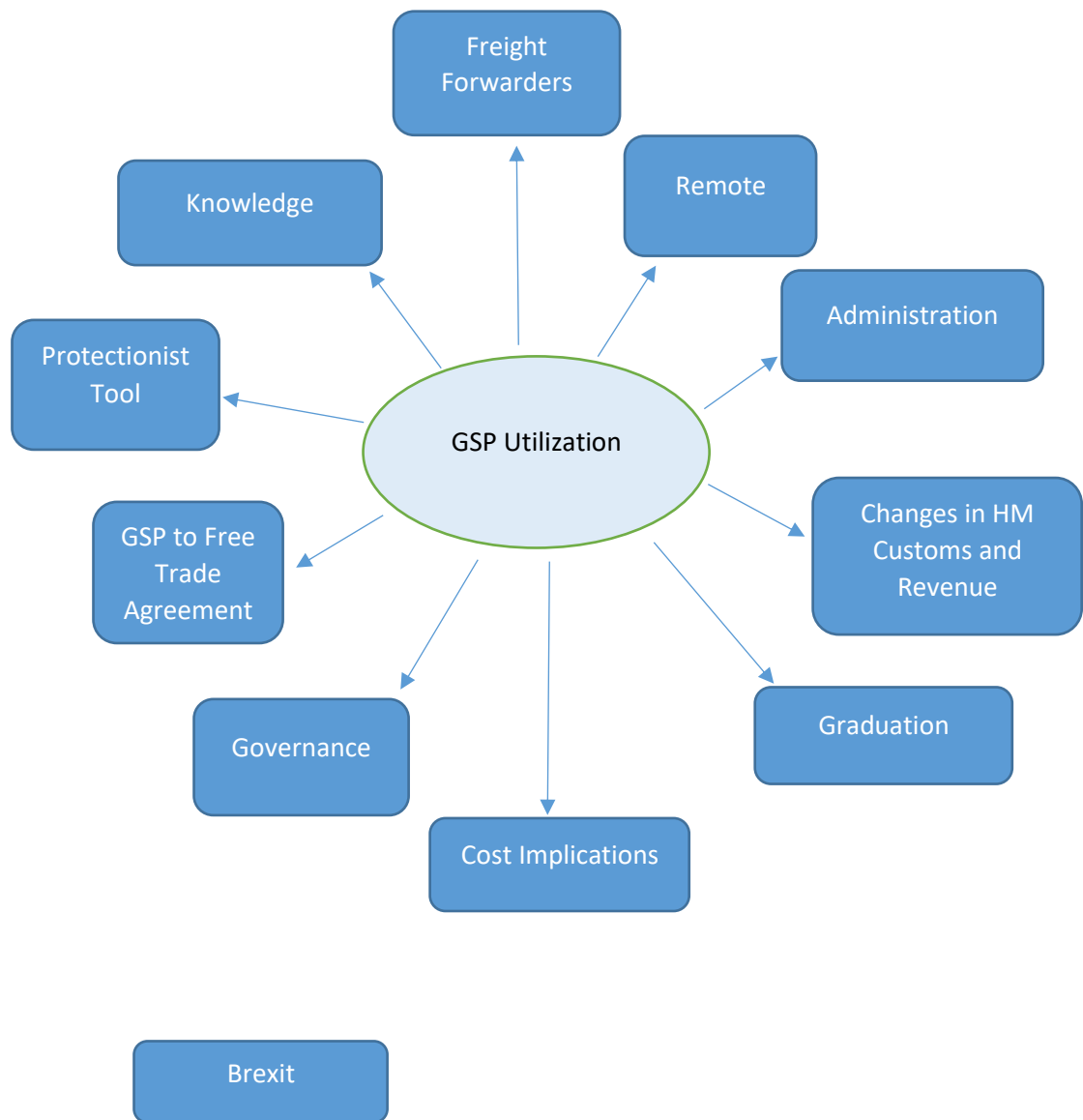
The semi-structured interviews were either recorded or written notes taken depending on the appropriateness of note taking at the time. All the interviews had a typed transcript produced and this was emailed to the interviewees within forty eight hours of the interview being undertaken. The interviewees were able to change the transcripts and were given the option to withdraw if they were not happy with data collected. Confidentiality was paramount and the company names were not included just company A, B, C, etc. This approach was most appropriate for the nature of the information that was made available. It was successful as all the interviewees agreed the transcripts could be used.

During the process of undertaking the interviews, which ran from 7 June 2016 to 17 July 2017, the UK voted (on the 23 June 2016) to leave the EU. The result of the vote has become known as Brexit. This provided a great deal of uncertainty at the time and a number of companies chose not to take part as they did not want to comment on trade policy which, at the time of writing, still promotes a great deal of uncertainty. The author became a contact for the UK Government Trade Stakeholders and four meetings were attended in Westminster, where the opportunity for networking yielded a number of high profile interviewees who were willing to take part. These interviews took place via a telephone interview. It provided an opportunity to include data collection on the UK importers' thoughts on the Brexit process and has allowed a further avenue of research, as it will affect the future allocation of GSP. This is analysed in the subsequent chapter.

Figure 5.1 page 118 provides a mind map on the different issues that were covered, within these interviews, in relation to the effects of the utilization of GSP. The Brexit issue is shown separately as it does not directly relate to the three hypotheses of GSP utilization, however, Brexit (Currently scheduled for March 2019) will have a direct impact

on UK GSP trade after the UK leaves the EU. Although the level of effect will, of course, depend on the terms of any post Brexit agreement.

**Figure 5.1 GSP Utilization categories for investigation**



The academic literature and review of the history of the GSP process show that there are many factors which have an impact on the development of GSP, as well as, its application at the operational level. Due to the different influences that impact on the GSP application it has become a complex process. The interview data was reviewed to



see if factors highlighted within the literature and history profiles, had an impact on how UK importers approach the GSP scheme. The interviewees provided detailed information on their approach to GSP and how their decision making process was influenced by the structure of the GSP policies, for example graduation.

The structure of the chapter will take the form of a summary analysis of GSP issues with the overall results of the main categories reviewed. The approach to the analytical work applied to the interviews' transcripts are described with 5.2. A more detailed analysis per category is undertaken and shown in subsection 5.3 and figures 5.3 to 5.8 showing the detailed results of the concerns that the interviewees had when applying GSP. The results are summarised in subsection 5.11 leading onto a conclusion in 5.12.

## **5.2. Approach to analysis of Generalised System of Preference issues**

The main structure of the interviews was developed as they progressed due to the changing situation in relation to the UK voting to leave the EU. The interviews were semi-structured and the interviewees were either asked directly to comment on or they provided the information within the discussion on the following issues:-

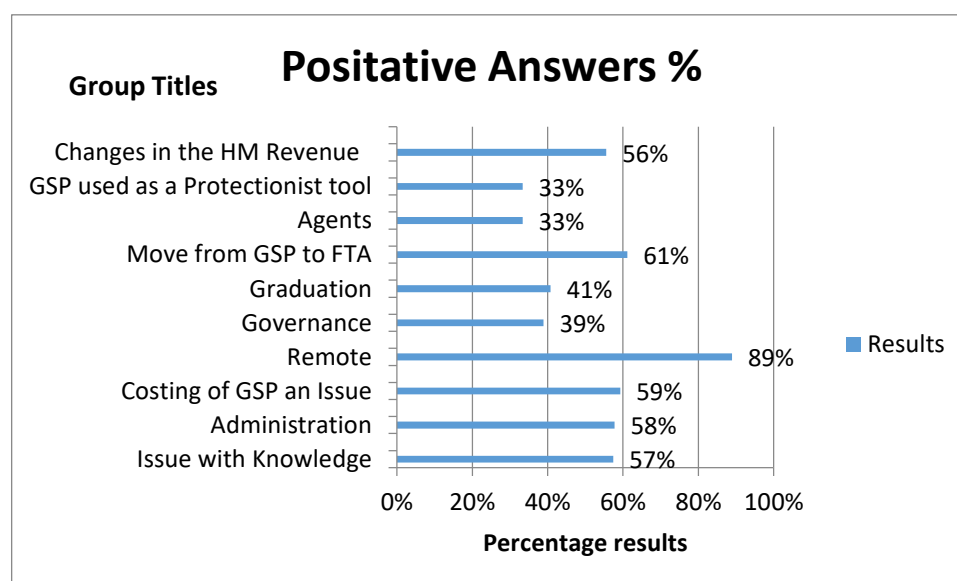
1. Do you have an issues with keeping up with the required legal knowledge and application rules?
- 2.Do you feel remote from the EU GSP regulators?
- 3.Do you think the EU are moving from GSP to FTAs?
- 4.Do you think GSP is being used as a protectionist tool?
- 5.Do you consider governance when applying for GSP?
- 6.Have you ever used, or considered using, import agents?
- 7.Has the approach to GSP from HM Customs and Revenue changed?
- 8.Has graduation been a problem?
9. Do you find the administration an issue, in particular compliance with the rules of origin?
- 10.Is the cost of application an issue?
- 11.What is your view on Brexit?
- 12.Do you think that the UK will respect the 1971 GSP trade agreement?

The above questions (one to ten) are analysed within this chapter while eleven and twelve are considered later in the thesis in relation to Brexit and the development of GSP trade agreement. The transcripts had a further seventeen sub questions which were coded and allocated to the subject questions above. When analysing the interview material the questions were grouped together within the theme questions above. The responses were recorded with percentages calculated by allocating the responses to a table. The number of responses converted into numbers and then percentages were calculated. See appendix 2; Interviewee Question Analysis. The overall results of the main ten subjects are shown in figure 5.2 page 121, analysis of group subject answers. The ten subjects were divided down further using the sub questions to provide a more detailed breakdown of the issues which were of concern to the interviewees. Some of these sub questions formed groups of two to four questions, while, changes in HM Revenue and Custom's procedures and attitudes; GSP used as a protectionist tool and the use of agents were only singular questions. The analysis shown in figures 5.3 to 5.8 show response to the questions in raw numbers as the sample of interviews is small.

### 5.3 Analysis of Generalised System of Preference issues

An overview of the ten main issues shown in 5.2 is reflected within figure 5.2 page 121. The average of the results of the group sub questions provide the percentages shown.

**Figure 5.2 Analysis of group subject answers.**



The remoteness from the EU GSP policy making processes was an issue with the interviewees with all except one interviewees feeling that they had little or no input to the decision process within the EU GSP policy making, while changes in policy had a direct impact to their business. 61 percent felt, in recent years, the EU has been moving the GSP towards Free Trade Agreements (FTA). Interestingly, Cost of GSP, Administration, Issue with Knowledge and Changes in HM Revenue and Customs are all in the higher 50 per cent bracket. While, Graduation, Governance, Use of Agents and the EU using GSP as Protectionist Tool are all resulting in percentages below 50 percent. All of these areas are analysed and discussed in more detail later. The results highlight some of the issues that were reflected within the literature and historical reviews. The correlation of these results are investigated in chapter 7.

## **5.4 Analysis of single questions**

Four of the ten categories shown in figure 5.2 above did not have any sub questions allocated to their categories and were singular questions. This are analysed in section 5.4 with inserts from the interview transcripts supporting the quantitative results.

### **5.4.1 Remote from the EU GSP process**

This proved to be the highest resulting single question will all except one interviewee, figure 5.2 page 121. The interviewees (companies A, B, C, D, E, F, G and H) identified that they had no input into the GSP decision making process, but the decisions being made had a direct impact on GSP and therefore a direct impact on their business.

#### **Related comments from the interview notes:-**

Company A, Senior Manager Large Retailer.

“The EU can appear to be remote from business as a whole as they do not have business experience.”

**Another view:-**

Company B, Senior Manager Large Retailer.

“The organisation is a member of a commercial organisation for retailers and are kept up to date with the EU changes in legislation. However, it is reactive rather than proactive. HMRC will ask the commercial organisation for retailer’s opinion from their members if they feel that there will be an impact on the retail sector. So there is good communication between the UK authorities and retailers.”

**Another view:-**

Company C, Director, UK Consultant.

“Companies do feel remote from the process.”

**Another view:-**

Company D, Senior Manager, UK Medium/Large Manufacturer.

“At the moment we are feeling remote from the EU decision making on the GSP process.”

**Another view:-**

Company E, Director, UK Association Manufacturing sector.

“There seems to be a lack of progress and focus on working with agencies with the EU to move issues forward.”

**Another view:-**

Company F, Director, Multinational Pharmaceutical Manufacturer.

“There is one thing that is missing from all these trade agreements; that there should be more of a process where the trader can raise issues with the authorities.”

**Another view:-**

Company G, Director, UK Association Retail Sector.

“Well it is taken by other people. However, although decisions on this are taken in Brussels, fact is at the moment, since the Lisbon treaty, the European Parliament has got a much greater say in many areas of European policy, including trade policy.”

**Another view:-**

Company H, Director, UK Consultant.

“One of the issues that came across clearly from this conference was that companies do feel remote from the negotiating process.”

**Overall comments:-**

Companies A, B, C, D, E, F, G and H do feel that they do not really have any input with the EU policy making process. They can approach their relevant trade associations and they will voice the opinion of their sector to HMRC. However, there are currently 28 countries involved with trade policy and UK business are feeling remote from this process.

## **5.4.2 Changes in HM Revenue and Customs**

As we can see from figure 5.2 page 121, 56 percent of interviewees, (Companies B, C, D, F and G), identified that they have noticed a change within HM Revenue and Customs and how they are approaching overseeing the application of GSP.

### **Related comments from the interview notes:-**

Company B, Senior Manager Large Retailer.

“Also, because they have lost staff, they no longer have the time to go out to businesses and provide education to the importer. So they tend to raise demand notes first and then, if possible, try and educate them. But their main education is to suggest the importer read the Customs notices available on the Inland Revenue and Customs Website.”

### **Another view:-**

Company C, Director, UK Consultant.

“HM Revenue and Customs have been subject to staffing cuts, which have meant that they now have a shortage of experienced officers. HM Revenue and Customs staff used to provide, around the country, a roadshow conference aimed at small businesses. They would be in the form of lectures on various issues and the delegates could ask senior HM Revenue and Customs staff questions in relation to their issues and receive advice, free of charge and risk of penalties. This is no longer available.”

### **Another view:-**

Company D, Senior Manager, UK Medium/Large Manufacturer.

“You get a different answer from every officer, I would send documentation away to the local office and one officer will accept it and another with reject it.”

**Another view:-**

Company F, Director, Multinational Pharmaceutical Manufacturer.

“The customs control at the border will insist on getting the paperwork correct. However, customs officers are, at times, unsure of the rules and ask pointless questions or are having to email someone and wait for a response. While all this is happening the goods are not moving. The UK government needs to ensure that the customs officers are well trained to limit the time at the border.”

**Another view:-**

Company G, Director, UK Association Retail Sector.

“HMRC also seeks the commercial organisation for retailers, for their opinion from their members, if they feel that there will be an impact on the retail sector. So there is good communication between the authorities and retailers.”

**Overall view:-**

Companies B, C, D, F and G have shown that:-

HM Revenue and Customs are more prolific in issuing penalties which is possibly due to staff cuts and not having the time to educate the importers, even if the importers are small businesses who have tried to follow the complex legislation. Therefore, there has been a decrease in the education available from HM Revenue and Customs over the last five years. This leads to the conclusion that HM Revenue and Customs has changed its approach to how they apply GSP.

**5.4.3 GSP used as a Protectionist Tool**

The academic literature has suggested that the EU GSP has been criticised for developing a protectionist approach when setting the policies of the GSP scheme, for

example with the allocation of quotas. Although the result shown in figure 5.2 page 121, is low, at 33 percent, there is concern shown within interviewees, (company C, E and G), that this is a factor when the EU develops the GSP policy.

**Related comments from the interview notes:-**

Company C, Director, UK Consultant.

“Preferences are a political tool, especially the GSP side of preference, with its good governance, built into GSP+ single countries out and stating that Samoa cannot have GSP until 2018 because of the way it is politically structured. I do not think, in 1973 when it was first set up that it was even thought that it would be used in that way. It was purely to try to enhance production in developing markets. The WTO does not actually lay claim to GSP at all, but it does have its mission statements and the GSP does cover a large area of the mission statement for the EU. So, if the WTO came to the EU to seek documentation as to how the EU is covering some of the issues highlighted by the WTO, then the EU could easily produce the GSP scheme, to show that they are improving trade with the Lesser Developing economies. Therefore, the argument that GSP is only available on products that the EU wants and not on the products that the LDC produces would not be a priority consideration. There is some market protection evolved with GSP, but it seems, as a scheme, to be a strange mix of products for the open market, which is not as open as it appears. Some of the political criteria involved can be a little frustrating.”

**Another view:-**

Company E, Director, UK Association Manufacturing sector.

“At the moment the UK is setting its stall out to grow its economy and China could replace the USA. But if political scenario is against it then this will not happen.”



**Another view:-**

Company G, Director, UK Association Retail Sector.

“The GSP system that we have in the EU is a result of negotiations between the various interests within the EU. This ended up with the GSP system becoming the centre of gravity, which is rather more protectionist than would happen if it was the UK alone deciding on what the GSP regime was going to be.”

**Overall comments:-**

Companies C, E and G have shown there is general consensus that the EU GSP scheme is political and the EU will only provide GSP on products that it wants rather than the products which the LDC produces and there is clearly a political structure which contributes to what has become a protectionist scheme.

**5.4.4 Issues of using Agents**

The interviewees were asked to provide their opinion with regards to the use of freight agencies and if they are able to allocate appropriately preferences when the imports qualify for them. All (companies A, B, and C), of the 33 percent respondents highlighted that smaller companies tend to use freight agencies as they have the expertise in house.

**Related comments from the interview notes:-**

Company A, Senior Manager, Large Retailer.

“The importer does not find out that the forwarder is not able to provide the documentation until it is requested by customs. There can be an issue of lack of knowledge as to the responsibility for the documentation. If the small company does not know there is an issue then they are not going to look it up, or may have difficulty in finding it.

Smaller companies may rely on shipping agents; some would use many different companies. They can be subject to not being able to supply documentation when customs visit the importers. Therefore, they are subject to penalties. It does need to be made clearer as to who is responsible for providing the documentation on inspection by customs. When working for Customs companies could be issued with a bill, which has a direct negative impact on their cash flow.”

**Another view:-**

Company B, Senior Manager, Large Retailer.

“We do work with the freight forwarder, however, due to the timeliness of the certificates, I just instruct the forwarder to process the entry without the GSP and then, as soon as we received the GSP, we make a retrospective claim. Or we can put them on deposit which is preferred by HMRC.

The freight forwarders will come directly to me with any queries from customs. All customs matters are done in house, as it is our responsibility. It works for control and knowing what is going on with the import/exports. Also, if you are employed by the company then you are going to take more care in obtaining the correct documentation than a third party. The forwarder will not understand the business or relate to the difficulties in obtaining a GSP certificate. Therefore, it is easier to have the documentation in house. There have been issues in obtaining the documentation from the freight forwarder. For example, the SAD. However, the exports are more of an issue than the imports.”

**Another view:-**

Company C, Director, UK Consultant.

“Some freight companies are now working closer with importers, but only if they have a certain level of freight; they would not consider the importers who are using the freight forwarder for one or two shipments a year. The freight companies are now starting to

take on the role of advising clients and under AEO to do it correctly they have to have a system in place of verifying EUR1s and GSP certificates before they make the entry into the EU. This is why freight forwards are asking importers do you want to use this form. So they are taking on a little more responsibility with regards to the application of the correct certification at point of entry. However, there is still the issue of if the importer says go ahead and the certification is incorrect then the freight forwarder will not have any issues.

However, companies are not tending to pass the implementation of GSP to a shipping agent, when they are made aware of it. Also, a lot of shipping agents will not enter imports to preference without instruction from the importer. However, the shipping agent could be asked to sort out shipping for a change of supply from China to Cambodia; they would not necessarily highlight to the importer that GSP could be available.”

#### **Overview comments:-**

Companies A, B, and C do depend on the freight forwarder to be knowledgeable in the application of GSP. However, all responses stated concern that the freight forwarders may not allocate goods for preference if the importation of goods is not on a regular basis or the freight forwarder, at times, have not had appropriate training to allocate the preference. There is an issue of smaller businesses missing out on import duty refunds which have a direct impact on their cash flow. All have expressed that there is a risk of non-application of a preference or that the incorrect documentation is used. Therefore, the importers are checking the import entries made by the freight forwarders as it the importers responsibility.

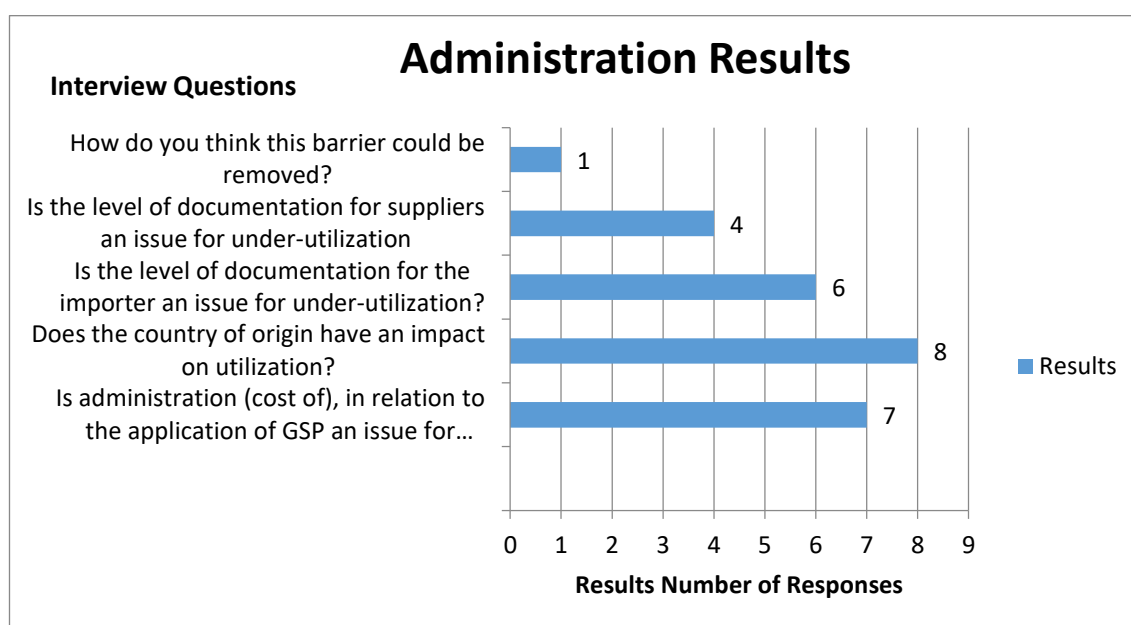
## **5.5 Analysis of sub questions groupings**

The sub questions of the main ten categories shown in figure 5.2 page 121 are analysed in detail below and extracts from the interviews are included to support the quantitative results. The results are shown in a raw data format.

### 5.5.1 Administration

The issue of the administration application of the GSP has been used as an argument within academic literature as a key element for underutilization of GSP. Therefore the interviews provided a unique opportunity to gain detailed analysis of the type of administration which is proving to be an issue. It has had an effect on the utilization of the application for GSP for goods at the point of import into the EU.

**Figure 5.3 Analysis of Administration Issues.**



There were five sub questions within the administration category that are covered within the interviews and many stated similar issues and views on how administration impacts on the processing of GSP.

### **5.5.2 Does the country of origin have an impact on utilization?**

By far the main issue that has been raised is the country of origin/rules of origin, having an impact on utilization, resulting in companies C, A, B, D, F, G, H, and I, highlighting that this is a concern. The main arguments that were raised was that the importer has to prove that the rules of origin shown from the supplier are deemed to have met the EU requirements. This can be an issue as many suppliers do not understand the rules of origin requirements and although the goods have to have a GSP certificate stating that the goods are compliant, the supplier will get the certificate as an automatic procedure thinking that is what the EU importer wants to see, without ensuring the goods are compliant. However, HM Customs and Revenue can investigate the importers supply chain and if the rules are not being met then the UK importer will face penalties. Therefore the rules of origin compliance remains with the importer.

#### **Related comments from the interview notes:-**

Company C, Director, UK Consultant.

“It is the importer that has to satisfy the UK HM Revenue and Customs that they have undertaken the required checks with the LDC supplier and that the country of origin/rules of origin percentages has been met. If there is any doubt then the UK HM Revenue and Customs will issue a penalty to the UK importer. Many importers stated that there are times when they would just pay full duty on importation as they do not want to risk the penalty.”

**Another view:-**

Company A, Senior Manager, Large Retailer.

“Importers can see what rules the supplier must comply with so they can carry out the due diligence by asking relevant questions to satisfy themselves the certificates are issued correctly and their supplier understands the rules they are trying to meet. Must also have documentary evidence to show to customs.”

**Another view:-**

Company B, Senior Manager, Large Retailer.

“The rules of origin rules are clear. We have good education through-out the organisation; making sure that the buyers and suppliers know the percentage of compliance for the components of each product.”

**Another view:-**

Company D, Senior Manager, UK Medium/Large Manufacturer.

“One of the biggest issues we have is that original documentation is required. Currently, we are dealing with GSP certificates from India and a small handful from Vietnam. The GSP certificate never ever turns up on time. The duty is paid and reclaimed back from HMRC. Therefore, we claim retrospectively. The duty is suspended as it comes into the UK; you cannot use your preference certificate until 9 months later, however, the preference certificates are only valid for 10 months, so there is a one month window where the certificate can be utilized. There is the potential to lose out on some preference claims.”

**Another view:-**

Company F, Director, Multinational Pharmaceutical Manufacturer.

“There is also confusion of the general origin. There is preferential origin which is a law unto itself, at least the rules are specified. The general origin is different in most countries.”

**Another view:-**

Company G, Director, UK Association Retail Sector.

“To gain preferential origin and therefore benefit from the reduced rates i.e. zero rates of duty when bringing the items into the EU you have to undertake two processes. The garment is to be made in the GSP beneficial country and the fabric originates from that country. It is particularly difficult as the rules on cumulation also mean that even if the fabric came from another GSP beneficiary you cannot count it as being preferential fabric.”

**Another view:-**

Company H, Director, UK Consultant.

“When we leave the EU, what about the stock you buy from Germany? What about your supplies of manufactured articles that go into your EU customers”.

**Another view:-**

Company I, Director, Multinational Manufacturer.

“There is a Midlands company, who export to France and Germany, and their expertise over the years in import/export documentation has declined due to the current EU free

trade. However, they are finding that they are having to develop the expertise from scratch which costs time and money. At the moment they just complete the Eurostat information for goods over a certain value. However, if they have to start using the Rules of Origin, this will entail a lot more in depth administration and require expertise within this area and therefore personnel to deal with it. They would like to avoid this situation if possible.”

### **Overview comment**

Companies C, A, B, D, F, G, H, and I also suggested that the lack of knowledge would be an issue for the smaller suppliers. This aspect does have an impact on the overall GSP utilization within the UK. The findings shown within the importers views show that the rules of origin is a strong issue with UK importers.

### **5.5.3 Cost of administration of GSP an issue?**

Companies B, F and H highlighted that the cost of application of the administration process undertaken to apply for the GSP is an aspect they have to consider. Costs can come in many forms, for example, dedicated staff to deal with the documentation, training, and cost of delay in gaining the preference if reclaiming retrospectively along with the costs of the penalties if the administration is not completed correctly.

### **Related comments from the interview notes:-**

Company B, Senior Manager, Large Retailer.

“Companies are very cost sensitive and will compare the amount of duty saved to the cost of the administration related to the saving. They estimated that if the preference to be saved is 2.7 percent of importation tax or below, often the GSP is not applied and full duty is paid. There must be a very high value of the items imported to justify the application of the GSP. “



**Another view:-**

Company F, Director, Multinational Pharmaceutical Manufacturer.

“If a company is thinking of applying for GSP then the base line saving of £5,000 in import duty is required to justify the application of GSP. This is due a member of staff needing to be allocated to the role of controlling importation of goods, obtaining origin declarations and being able to understand how to monitor the import declaration and to develop the links to the supplier to provide correct supporting evidence.”

**Another view:-**

Company H, Director, UK Consultant.

“One interviewee attended a high profile conference in Brussels with approximately 2000 representatives from the World Trade Organisation (WTO) and World Customs Organisation (WCO). The delegates were asked by a speaker why they were not using FTA and GSP. The reply from the delegate floor was:-“they are too difficult”. All the admin, all the work, education that is required for the suppliers, whether they are UK suppliers feeding into export or overseas suppliers feeding into GSP. As a company we estimated the cost of benefit to the cost of not using the preference benefits and it was better not to use the preference”.

**Overview comment**

Cost estimation is undertaken when reviewing if application for a preference is worthwhile. As many imports have a small amount of preference then the company will deem that paying the full import duty is the most cost effective plan. However, it is dependent on the quantity of the goods imported as the cost value of the preference would increase with volume. Companies B, F and H implied the administration required to apply the GSP is detailed and time-consuming. Interestingly, Company F estimated that the level of duty saved needs to be £5,000 in the beginning to make it worthwhile to

apply for GSP. Below £5,000 then full duty would be paid on eligible preferential goods. The cost element is treated as an important consideration when using GSP.

#### **5.5.4 Is the level of documentation for the importers an issue under GSP?**

Along with this line of questioning companies H, A, C, F, G and I were concerned with the cumbersome level of documentation, thus allowing for more scope for error. This is an area of concern as the importer is legally responsible for the documentation in relation to the application of GSP.

##### **Related comments from the interview notes:-**

Company H, Director, UK Consultant.

“There must be an understanding of the non-preferential origin rule as well as the various preferential origin rules which vary by agreement. They are not all the same and this is confusing for importers.”

##### **Another view:-**

Company A, Senior Manager, Large Retailer.

“Customs documentation has to be kept for 4 years (it’s in the law). HMRC will only go back 3 years to recover unpaid or underpaid duty. HMRC places the responsibility on the importer to keep the documentation, even if a freight forwarder is used. So this is a risk, in particular to smaller companies, who may become liable for penalty notice without realising that this is an issue.”

**Another view:-**

Company C, Director, UK Consultant.

“What is involved in this kind of role, i.e. controlling imports of goods, obtaining origin declarations, who understands how to monitor the import declaration and how to link with the supplier to get the correct supporting evidence? A high level of documentation is required.”

**Another view:-**

Company F, Director, Multinational Pharmaceutical Manufacturer.

“This area is a complex thing and, if you start reading the British notices, you can quickly get bogged down into all sorts of questions in relation to the meaning.

Most businesses are not aware of the trade. I took a decision 5 – 10 years ago to appoint a position of a trade’s manager - customs liaison officer. But not all companies do this and some of our legal entities around the world may only have a part time job to cover customs issues. In my mind sometimes we consider if it is worth us doing this, due to the amount of administration, and sometimes the answer is no, it is not worth us doing it, just pay it.”

**Another view:-**

Company G, Director, UK Association Retail Sector.

“If it is a complex area, or a risk, we will pay the duty to get the goods through. No restrictions, no audits, just pay the duty. It is the safe way of doing it. It also gets the goods into production and therefore you can get the sale; which is far more important to us.”

**Another view:-**

Company I, Director, Multinational Manufacturer.

“Smaller companies within the supply chain, of which there are thousands of suppliers just supplying us, are not going to be able to get the information exact and when crossing a customs border the forms have to be correct.”

**Overview comment:-**

Companies H, A, C, F, G and I, have shown the level of documentation in relation to an importer is shown as a drawback by importers who deal with GSP. Currently the importers are at risk of penalties if HM Revenue and Customs find that the documentation used was not the original certificates or was incomplete at the point of import. HM Revenue and Customs can review documentation retrospectively for three years and the importer has to produce the documentation, even if a freight forwarder/agent was used. The liability remains with the importer.

**5.5.5 Is the level of documentation for the suppliers an issue under GSP?**

Companies A, B, F and I stated that the documentation provided by suppliers is an issue and can result in duty being fully paid on importation into the EU. This is due to the lack of understanding from the suppliers as to legal requirements in relation to the documentation and the emphasis is with the importer to get the documentation correct.

**Related comments from the interview notes:-**

Company A, Senior Manager, Large Retailer.

“There is an issue with the length and complexity of the supply chain which in turn has made the issue of preference more complicated. For example, manufacture of fabrics in China then taken to India for further manufacture, does not qualify for preference as this

is not manufacture from yarn. However, there is greige cloth, (raw state), which requires a number of processes to be able to bring the fabric into manufacture. Therefore both importers and exporters must understand the origin rules.”

**Another view:-**

Company B, Senior Manager Large Retailer.

“There has recently been some issues regarding preference with Bangladesh and Cambodia to the issuing of GSP certificates as all the certificates were stamped as retrospective which was not correct. They should only be stamped if they are retrospective and not for current certificates. When this was queried the supplier then started not to stamp the certificates at all. So we had to educate the suppliers to raise the certificate and stamp them as current as goods were shipped.”

**Another view:-**

Company F, Director, Multinational Pharmaceutical Manufacturer.

“All the admin, all the work, education that is required for the suppliers, whether they are UK suppliers feeding into export or overseas suppliers feeding into GSP. As a company we estimated the cost of benefit to be the cost of not using the preference benefits and it was better not to use the preference.”

**Another view:-**

Company I, Director, Multinational Manufacturer.

“We have concerns with the UK supply chain. JIT is difficult to run within the US if takes one/two days to get through customs.”

**Overall comment:-**

The main concerns that Companies A, B, F and I had, with regards to suppliers' documentation, is that the LDCs tend to send documentation that they think the importer wants to have, rather than supply the documentation required. This causes issues with HM Revenue and Customs and the goods have the full import tax paid on entry. Education of the suppliers is provided by some importers, while others will just pay the duty and either try and get it back retrospectively or forfeit the duty.

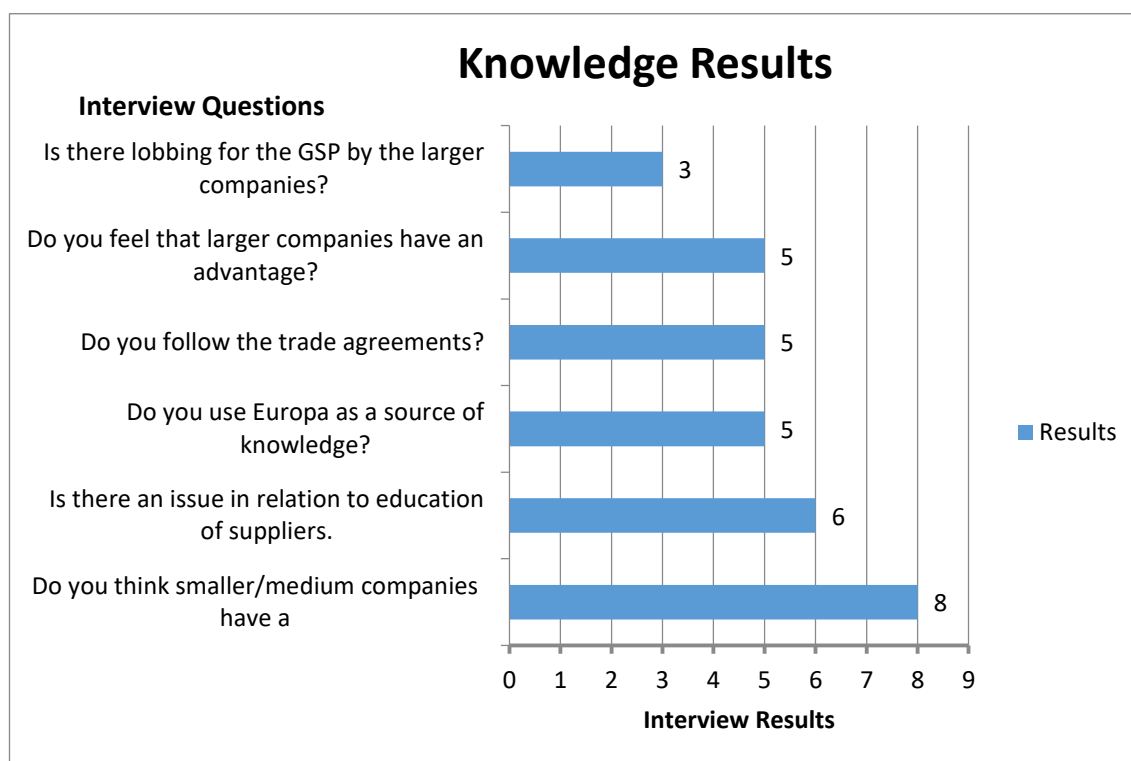
**5.5.6 How do you think the administration barrier could be removed?**

Although administration has shown as an issue when utilizing GSP only one of the interviewees Company C, Director, UK Consultant suggested that the administration barrier could be improved by companies using Authorised Economic Operator which has been developed to provide a simplified use of importation for international trade. HM Revenue and Customs have been recommending companies invest in this system and it is predicted that there will be an increase in users due the change of the union customs code; that to use simplified customs procedures, the company has to be AEO compliant.

## 5.6 Knowledge

The availability of knowledge has six sub questions within this category and these are analysed with inserts of interviews to support the quantitative findings.

**Figure 5.4 Availability of Knowledge**



### 5.6.1 Do you think smaller/medium companies have a knowledge barrier with regards to how to apply for preference?

It is evident that companies A, B, C, D, E, F, G and H thought this to be an issue with thinking that smaller/medium companies struggle with applying preference due to the lack of knowledge.

**Related comments from the interview notes:-**

Company A, Senior Manager, Large Retailer.

“Rules of origin is complicated and the process could be made a lot clearer to smaller, medium companies. For example, a more direct way to access the information of the Inland Revenue and Customs website. The EU commission does not have experience on how a business in general works and therefore do not fully appreciate the issues of the small/medium businesses.”

**Another view:-**

Company B, Senior Manager, Large Retailer.

“Small/medium companies may not have a shipping department or a dedicated person to deal with this.”

**Another view:-**

Company C, Director, UK Consultant.

“With regards to smaller businesses, they looked at the implementation of AEO on a more commercial basis, i.e. how much will it benefit the business in cost savings compared to the outlay of obtaining AEO. But using AEO does provides constant training and delivery and therefore this was more of a benefit to our organisation. When buying from smaller UK suppliers we would still have the transparency of where the goods have come from.”

**Another view:-**

Company D, Senior Manager, UK Medium/Large Manufacturer.

“Keeping up with the knowledge and the union customs codes is an issue, i.e. too much information too late down the line. Very often you would start planning and then the situation would change. For the union customs code we got the final draft on the 29 December 2015 which gave us four months.”

**Another view:-**



Company E, Director, UK Association Manufacturing sector.

“There is a great degree of unawareness to many smaller, medium businesses of importing and it is can be viewed as not a professional skill and therefore not included within the body of the business. This is an issue for the smaller businesses as the information on the Customs notices are not easy to follow if the importer has not had experience in this field. Also, they are interpretations of the law, they are not the law itself.”

**Another view:-**

Company F, Director, Multinational Pharmaceutical Manufacturer.

“The larger companies can afford to have specialist resources to deal with it. But smaller companies, in many instances, do not have the knowledge and have to rely on specialist third parties to help them with it. However, the government are able to help in providing information, i.e. the Department of Trade, who will talk to companies and advise them on what they need to do. The government, generally speaking, is keen to promote trading, so they will help and provide some advice.”

**Another view:-**

Company G, Director, UK Association Retail Sector.

“It would be more of a challenge for the smaller and medium companies, with less resources, to have the detailed knowledge base. However, there are companies that are operating within this area helping small companies to source from countries, helping them with the import documentation, GSP certification and all of that. It is more of a question for the smaller companies to know to engage with these companies. So if they do not know about it, how can they engage with it?”

**Another view:-**

Company H, Director, UK Consultant.

“There is now very little help from Customs with regards to smaller and medium companies. However, there is a section called ITDLO (International Trade Development Liaison Officers), their role is to go to companies and advise them on new initiatives. There used to be a system of training course education that companies could go to. However, this has gone on line. Often the smaller importer does not understand that they will have to carry out some administration tasks before the duty can be reduced. “

**Overall comment:-**

Clearly there are concerns from companies A, B, C, D, E, F, G and H with regards to how the smaller and medium sized companies apply GSP. Interestingly, there was general consensus that more could be done to help these companies. To have the knowledge of GSP and how they could benefit from it, as due to their size cash flow will be enhanced by the duty saving. The interviewees acknowledged that the cost element of application would be a factor and more could be done to allow better access to the application of GSP for these companies. This was a strong issue with the interviewees.

### **5.6.2 Is there an issue in relation to education of suppliers?**

Companies A, B, C, D, F and I highlighted concerns in relation to the education of suppliers and stated that this has an impact on their application of GSP.

**Related comments from the interview notes:-**

Company A, Senior Manager, Large Retailer.

“GSP countries are aware of the preference arrangements. However, whether the suppliers actually understand the application and origin rules of GSP is an issue. It can be used a marketing tool by the supplier to gain business with the purchaser.”

**Another view:-**

Company B, Senior Manager, Large Retailer.

“There is an issue of fraudulent GSP forms over the last 18 months, i.e. very good photocopies of forms with stamps. Lack of knowledge or naivety is clearly an issue. For example, there is a lack of knowledge that there are GSP schemes and companies are paying duty when there is an option for reduced or zero duty. Also, there is a lack of knowledge when a supplier will say I will send you this form and you can pay less money. The importer does not understand that they will have to carry out some administration tasks before the duty can be reduced. “

**Another view:-**

Company C, Director, UK Consultant.

“Sometimes the importer would suggest that they have heard about GSP but they are not sure, so they would pay full duty anyway and if they pay full duty they will never have a Customs audit. However, there are some companies that would pay full duty on importation then verify the certificates and then administer a retrospective reclaim. It is difficult to ascertain the level of duty being paid in full and not utilizing preference.”

**Another view:-**

Company D, Senior Manager, UK Medium/Large Manufacturer.

“Training is another issue; in particular Indian suppliers are issuing the GSP certificates which we are accepting in good faith but I do not know if they are genuine with regards to the country of origin/rules of origin. They all tend to come through with the letter P on. At the moment I email the supplier and ask them if they can confirm that their product is wholly of Indian origin. I then have an email to say that yes they agree. In the eyes of

HMRC we are accepting the goods in good faith. I would use the acceptance in good faith clause if it is queried by HMRC.”

There are two main issues regarding the GSP certificates.

1:- Is getting hold of the GSP certificate in a timely manner.

2:- Is the accuracy of the GSP certificate provided.

The Suppliers from the lesser/developing countries are now very aware of the competitive advantage that GSP gives them when selling to the EU. There is an issue in the first instance of lack of education of suppliers but there are some, that to keep the EU trade, they will be proactive in opening factories in preference countries.”

**Another view:-**

Company F, Director, Multinational Pharmaceutical Manufacturer.

“Education has to be considered with all the admin, all the work, education that is required for the suppliers, whether they are UK suppliers feeding into export or overseas suppliers feeding into GSP. As a company we estimated the cost of benefit to the cost of not using the preference benefits and it was better not to use the preference.”

**Another view:-**

Company I, Director, Multinational Manufacturer.

“With the supply chains now on a global scale. They are active in moving between preference countries in order to maintain GSP. An example of this is China which has recently come out of GSP due to their successful economic global status. Chinese producers set up operations in Cambodia, Vietnam and Laos as they still get GSP and therefore the Chinese can still get exports into the EU with reduced/zero duties. This is very attractive for the Chinese businesses as they have a reduction of the cost of labour as well as continued preference. Therefore, physical operations are no longer static and the manufacturing can move from country to country for different reasons, including the

implication of the treatment of their goods when imported into other countries/markets. Therefore, the suppliers do not fully understand the implications of what is required when qualifying goods for GSP.”

**Overall comment:-**

Companies A, B, C, D, F and I are concerned with the education of the LDC suppliers. It is clear that if the importers have any doubt with the eligibility of the supplier's documentation then full import duty is paid as the risk of HM Customs and Revenue penalties are too great. Some importers educate their suppliers to ensure that the GSP process is compliant and there is evidence from the importers that they have tried to ensure that their supplier's rules of origin certificates are valid. The importers have to justify the supply chain rules of origin to HM Customs and Revenue and provide evidence that they have done so with their suppliers.

### **5.6.3 Do you use Europa as a source of knowledge?**

Companies A, B, D, F and H, regularly review the European Union website Europa to keep up to date with changes in legislation and GSP updates.

**Related comments from the interview notes:-**

Company A, Senior Manager, Large Retailer.

“The interviewee undertakes a lot of reading of Law and follows various websites i.e. Europa.”

**Another view:-**

Company B, Senior Manager, Large Retailer.

“Europa site is used on a regular basis to keep up to date with new legislation and changes to come, as well as, a number of organisations.”

**Another view:-**

Company D, Senior Manager, UK Medium/Large Manufacturer.

“This can be obtained on the Europa database.”

**Another view:-**

Company F, Director, Multinational Pharmaceutical Manufacturer.

“The EU have recently issued a report on GSP, on the Europa website, under the preference section, GSP.”

**Another view:-**

Company H, Director, UK Consultant.

“There is also an issue of UK resources within HMRC and if they will be up to date with the information and how it should be applied. For example, Europa.”

**Overall comment:-**

Companies A, B, D, F and H, show that businesses are aware of the Europa website and are using it to find out progress of trade agreements.

#### **5.6.4 Do you follow the trade agreements?**

Following the various trade agreements is a priority for companies A, B, F, G and H.

##### **Related comments from the interview notes:-**

Company A, Senior Manager, Large Retailer.

“To keep up with the knowledge of the various tariff issues and trade agreements the interviewee undertakes a lot of reading of Law and follows various websites i.e. Europa, to keep up to date, they publish ongoing negotiations on agreements and keep up to date with global trade. If however, someone was not familiar with this area, then this can be cumbersome. “

##### **Another view:-**

Company B, Senior Manager, Large Retailer.

“With AEO introduction the level of communication between the organisation and HMRC has increased and this, in turn, has provided a better level of understanding. It provides clear procedures and systems which enables better training and education to be undertaken and gives the AEO its true value.”

##### **Another view:-**

Company F, Director, Multinational Pharmaceutical Manufacturer.

“FTA are currently negotiated by the EU and we follow these agreements in relation to our supply chain. With regards to Brexit, we want something that carries on exactly the same as we have currently got; to allow businesses on both sides to benefit, with no loss on either side. I would hope that most countries will agree to this and therefore will not take too long.”

**Another view:-**

Company G, Director, UK Association Retail Sector.

“When the GSP changed in 2014 EU stated they were going for the lesser developed countries and they removed all the countries that were middle ranked economies by the World Bank. This sent a big shudder across the EU because it lost Brazil. Brazil is a very key trading market and it did have a major impact. The EU stated that this should not be a problem as a FTA would be available. However, it is three years later and still the FTA has yet to come into force.”

**Another view:-**

Company H, Director, UK Consultant.

“Also, there is an argument that the smaller and medium companies are more efficient as they can see the direct impact on their business. They monitor GSP and Free Trade Agreements closely because of the impact they have on the business. However, there is an issue that the legal language can be cumbersome and be an issue for understanding.”

**Overall comment:-**

Companies A, B, F, G and H show that Free Trade Agreements are followed by the importers and they are actively reviewing any trade implications affecting their business. This is an issue that the importers regard with high importance.



### **5.6.5 Do you feel that larger companies have an advantage with regards to being able to afford the utilization of preference?**

Company A, B, C, D and F agreed that larger companies have an advantage. For example, larger companies are able to administer customs documentation at importation and also for retrospect reclaims. Education is provided across the business to ensure that the correct documentation is identified and provided.

#### **Related comments from the interview notes:-**

Company A, Senior Manager, Large Retailer.

“We handle all of the customs paper work internally and retrospectively. Do not use many shipping agents. We have a shipping/imports department and provide education to the business as a whole with regards to ensuring that documentation is kept. The GSP certificate is checked to see if it is printed on the correct paper and of the correct colour as well as validity & compliance with origin rules. Also, we do have the capacity to apply for GSP retrospectively, but this does entail additional administration costs. We do not have any issue with obtaining documentation from shipping agents as the customs documentation is completed and retained in house. As we are large enough to have the in house approach we do have an advantage.”

#### **Another view:-**

Company B, Senior Manager, Large Retailer.

“The company is large and the team within the organisation and keep up with changes to the duty rates. Free Trade Agreements legislation with regular forums internally and also partake in a retail forum as well. Within our sourcing strategy, we provide education to the buyers regarding GSP and inform them of the different duty rates and preference. This provides us with an advantage.”

**Another view:-**

Company C, Director, UK Consultant.

“Large businesses, however, tend to have a Customs Relationship Manager who they are in contact with on a regular basis. In these circumstances they will look at how the business works and whether they have got procedures in place. But the smaller, medium sized companies do not have this access.”

**Another view:-**

Company D, Senior Manager, UK Medium/Large Manufacturer.

“Currently, we do not have a large business status with HMRC so we are under local control. The difference is incredible; you get a different answer from every officer. I would send documentation away to the local office, one officer will accept it and another would reject it.”

**Another view:-**

Company F, Director, Multinational Pharmaceutical Manufacturer.

“We are a large business and have appointed a position of a trade’s manager - customs liaison officer. But not all companies do this and some of our legal entities around the world may only have a part time job to cover customs issues, as they are smaller.”

**Overall comment**

Company A, B, C, D and F have clearly shown that there is an advantage to being a larger company, not only to be able to have the affordability to run the shipping in house but they also have an advantage of having a Customs Relationship Manager. However,

the smaller/medium companies are not able to form a special relationship with HMRC and therefore customs issues take longer to resolve.

#### **5.6.6 Is there lobbying for GSP carried out by larger companies?**

Companies A, F and G agreed that there is lobbying occurring between businesses and the EU GSP committees. This can occur in many different forms. For example, business associations will advise their membership of any major changes in preference and ask for feedback. UK businesses are not involved in negotiations. This raises another issue; business is reactive to the EU commission rather than included in the GSP decision making process and some of the decisions appear to be of a protectionist approach.

##### **Related comments from the interview notes:-**

Company A, Senior Manager, Large Retailer.

“With regards to lobbying, no, we do not actively lobby. However, we are members of associations, for example, JCC committees, and companies can sit on subcommittees, i.e. country of origin and the British Retail Consortium would consult us if there are any substantial changes and if we want to comment.”

##### **Another view:-**

Company F, Director, Multinational Pharmaceutical Manufacturer.

“The Campaigning, however, is only done with the FTA forums with the Department for Business Innovation and Skills, as they look after the Free Trade Agreements.”

##### **Another View:-**

Company G, Director, UK Association Retail Sector.

“Therefore, the argument that GSP is only available on products that the EU wants and not on the products that the LDC produces would not be a priority consideration. This does allow for the activity of lobbying.”

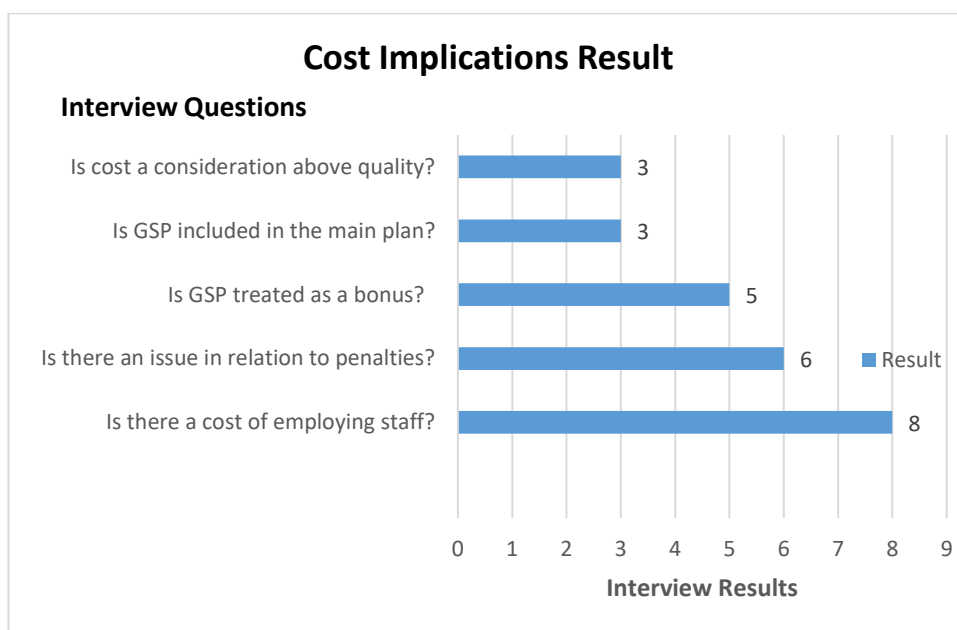
### **Overall comment**

Direct lobbying, although considered by Companies A, F and G is not a main issue as the importers rely on their trade associations to lobby on their behalf. All except one of the interviewees suggested that there is remoteness of UK business has felt from the EU GSP process. See figure 5.2 page 121.

## **5.7 Cost Implications**

The interviewees were asked about the issue of cost when applying GSP and how it affected their decision making when applying GSP. Details relating to this element were provided by five sub questions which are analysed below. Along with the cost of application, businesses were asked how they treated the refund/reduction of import taxation within their decision making process. The interviewees were also asked if they would always go for the cost saving, even if quality would be reduced.

**Figure 5.5 Application costs of GSP**



### **5.7.1 Is there a cost of employing staff?**

The cost of employing staff to administer GSP is a concern, as companies A, B, C, D, F, G, H and I stated that this is an issue. As well as employing staff they have to ensure that time is allocated for the GSP to be administered. The cost of training and keeping up to date with legislation is also considered within this area.

#### **Related comments from the interview notes:-**

Company A, Senior Manager, Large Retailer.

“The interviewee was employed to administer the GSP and overview trading issues. They have a shipping/imports department and provide education to the business as a whole with regards to ensuring that documentation is kept. Thus there is considerable cost with regards to employing staff.”

**Another view:-**

Company B, Senior Manager, Large Retailer.

“The interviewee had a team within the organisation tasked with keeping up with changes to the duty Free Trade Agreements legislation with regular forums internally and also partaking in a retail forum. Within our sourcing strategy, we provide education to the buyers of GSP and inform them of the different duty rates and preference. There is a considerable cost of employing staff and also within the training structure.”

**Another view:-**

Company C, Director, UK Consultant.

“When we ask a company do you employ anyone in that role and the answer is no, we do not have anyone in that role, then it is a learning curve and that they have to put a person in place for a least half a year of time. So it has to be half a person’s job to administer the preference. This is why we go in at about £5000.”

**Another view:-**

Company D, Senior Manager, UK Medium/Large Manufacturer.

“However, due to lack of staff this does not get done as frequently as I would like. But, we are getting more staff. The interviewee was employed to cover trade issues.”

**Another view:-**

Company F, Director, Multinational Pharmaceutical Manufacturer.

“I have appointed a full time position of a trade’s manager - customs liaison officer. But not all companies do this and some of our legal entities around the world may only have a part time job to cover customs issues.”

**Another view:-**

Company G, Director, UK Association Retail Sector.

“It is a highly specialised subject but our members, which tend to be towards the larger end of the spectrum, they will have importer, customs specialists within their company. These people really do have full knowledge of the GSP importation systems.”

**Another view:-**

Company H, Director, UK Consultant.

“There is therefore more reliance on the AEO to be compliant. This system is free, but there is a cost to the individual companies with regards to their own administration. So the company may have to write procedures, send people on training courses, so they take a more professional approach to import/export, as well as, possibly employing new people.”

**Another view:-**

Company I, Director, Multinational Manufacturer.

“However, if the UK suppliers have to start using the rules of origin, once the UK leaves the EU, this will entail a lot more in depth administration and require expertise within this area and therefore personnel to deal with it. Thus increasing costs.”

**Overall comment:-**

Companies A, B, C, D, F, G, H and I felt strongly that trained staff have to be employed to understand and implement GSP. This is a costly procedure for businesses to undertake and will be considered when establishing if reclaiming the import duty is worthwhile.

### **5.7.2 Is there an issue in relation to penalties issued?**

Companies A, B, C, D, F, and G expressed concern with the issue of penalties from HMRC. This can be an increased cost to the importer and also encourage the GSP not to be applied due to the risk of penalties.

#### **Related comments from the interview notes:-**

Company A, Senior Manager, Large Retailer.

“If the Importers claimed country of origin looks a little unusual in context of the country of dispatch then this could trigger an investigation. Because of the savings customs need to be sure of the accuracy of the documentation.

Over time a number of companies found to be misusing the preference which led to post clearance demands issued and at times they could be of a significant amount.”

#### **Another view:-**

Company B, Senior Manager, Large Retailer.

“We check 100% the sea freight that comes in. We have a classification system which enables us to check that the correct duty rate has been applied. Also, it can allocate the correct commodity code to be applied. We have a team that looks at this area and is approx. 95% accurate. This is to ensure that penalties are not applied.”

#### **Another view:-**

Company C, Director, UK Consultant.

“From a Customs audit point of view UK Customs are very short staffed, they are carrying out more desk audits, so the Customs officer would email the importer a list of import



entries and ask them to provide evidence. If the importer can't then it goes to the next step, and Customs very quickly raise a Post Clearance Demand Note."

**Another view:-**

Company D, Senior Manager, UK Medium/Large Manufacturer.

"One more point: Very often, you will research and have a good audit trail and then want the company to take the next step with customs and the company will refuse to take the next step as they are nervous that it could go wrong and they could be fined."

**Another view:-**

Company F, Director, Multinational Pharmaceutical Manufacturer.

"Often companies, small, medium and large will refuse to complete GSP as they are concerned that it could go wrong and they could be fined. Instead, they just pay the preference."

**Another view:-**

Company G, Director, UK Association Retail Sector.

"It does not mean that they may have individual questions relating to individual consignments, it is not a straightforward area to operate in, and it is a very complex area."

**Overall comment:-**

Companies A, B, C, D, F, and G are concerned with penalties and the increase in cost which is added to the value of the goods coming into the EU. The interviewees stated that if there is any doubt with regards the documentation they would rather pay the full

duty and have the goods delivered. To avoid the risk of the goods being held at customs until the penalty has been paid.

### **5.7.3 Is GSP treated as a bonus?**

Companies A, D, F, G and H stated that they treat the GSP savings as a bonus rather than incorporate it within the main business plan. Some of the reasons provided were:-

#### **Related comments from the interview notes:-**

Company A, Senior Manager, Large Retailer.

“However, we would still recommend that GSP should be treated as a bonus and not as a source of business cost saving.”

#### **Another view:-**

Company D, Senior Manager, UK Medium/Large Manufacturer.

“The GSP, therefore, is treated as a bonus as it can be taken away at any time.”

#### **Another view:-**

Company F, Director, Multinational Pharmaceutical Manufacturer.

“Just pay the duty. It is the safe way of doing it. It also gets the goods into production and therefore you can get the sale, which is far more important to us. So the preference is treated as a bonus.”

**Another view:-**

Company G, Director, UK Association Retail Sector.

“Also for complex agreements of country of origin, companies would just pay the duty to get the goods through and therefore have no restrictions, no audits, as this gets the goods into production and sale quicker, which is more important to the business. Therefore they would treat the GSP as a bonus.”

**Another view:-**

Company H, Director, UK Consultant.

“It should be treated as a bonus as GSP is a dynamic scheme and subject to change, i.e. movement between commodity codes and countries. Some larger companies have built factories in the LDC to be able to capitalise on the GSP saving, however, the GSP is then removed say three years later.”

**Overall comment:-**

Companies A, D, F, G and H had different viewpoints on this issue, but all treated the GSP as a bonus. This is due to the lack of control of the allocation of GSP or the complexity of the documentation. It is quicker to process the goods through customs by paying the duty rather than waiting for the correct documentation to become available from suppliers. Therefore, it is treated as a bonus rather than included within the main business plan.

**5.7.4. Is GSP included in the main plan?**

Interestingly, companies A, B and C do not treat the GSP saving as a bonus but factor it into their main costing structure.

**Related comments from the interview notes:-**

Company A, Senior Manager, Large Retailer.

“The GSP savings are included within the main business costing.”

**Another view:-**

Company B, Senior Manager, Large Retailer.

“GSP is incorporated within the main costing of a product.”

**Another view:-**

Company C, Director, UK Consultant.

“I think the level of duty rates that would be applied to imports and the prospective direction they might take in the future will be a key component for any large business involved in international sourcing. Companies will engineer their supply chain to take advantage of the most beneficial rates. They will do this the most for those products where the default duty rates are likely to be the highest.”

**Overall comment:-**

Companies A, B and C have shown that contrary to the previous question, 5.7.3 Is GSP treated as a bonus? Companies, which include GSP costing benefit, will have full administration support and are confident of being able to follow the complex preference agreements and be able to fulfil the customs documentation requirements. These companies will have a large cost saving of duty of between 9 and 12 percent of the value of goods entering the EU with duty reduced to zero; direct impact on cost. If included in their main costing plan it can be passed on to the customers in a competitive market.

Another explanation is that the larger businesses are involved in international sourcing (global supply chain) and therefore able to plan their supply chain to take advantage of the most beneficial rates. They will do this, in particular, where the default rates are likely to be the highest. For example:- The difference between paying 16% duty and 0% duty can be the difference between deciding to set up your sourcing from Laos, (0%), Cambodia, (0%), or China, (16%).

#### **5.7.5. Is cost a consideration above quality?**

Companies A, B and G stated that although cost is incorporated within their business plan they still monitor quality very closely and therefore quality is considered above cost.

##### **Related comments from the interview notes:-**

Company A, Senior Manager, Large Retailer.

“Approximately half of our business supply comes from preference countries, so any money saving that can be obtained from claiming preferential duty rates is having a direct impact on cost. However, the quality of the product has to be maintained.”

##### **Another view:-**

Company B, Senior Manager, Large Retailer.

“Quality is still the main factor as if the goods are purchased because they are cheap then the end customer would be disappointed and go elsewhere for those goods. So quality is key, then keeping the costs low is next.”

**Another view:-**

Company G, Director, UK Association Retail Sector.

“From the point of view of the retailers, who want to source the best possible product for the best possible price, quality is a high consideration.”

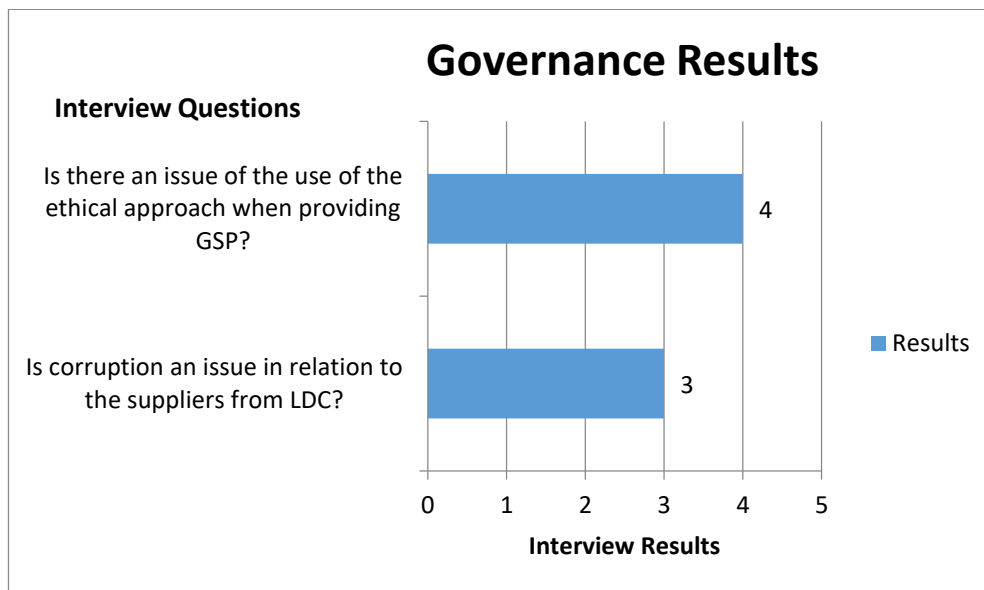
**Overall comment:-**

Companies A, B and G will put quality of goods above the preference savings; if the quality is not sufficient then the importer will lose customers and reputation, therefore, quality is paramount.

**5.8 Governance**

It could be argued that importers should consider the ethical approach when organising their supply chain. For example:- if GSP is withdrawn from a LDC does the importer change supply to another LDC which is continuing with GSP? There is the level of governance which is currently not available within the supplier's network. This has an impact on the importers. For example:- suppliers providing false GSP country of origin certificates.

**Figure 5.6 Consideration of Governance**



### **5.8.1. Is there an issue of the use of the ethical approach when providing GSP?**

Companies A, B, C and G do consider ethics policy when using GSP. An example that came to the fore is Sri Lanka's removal from GSP+; this was done in response to Sri Lanka's poor humanitarian approach. This has now improved and on 15 May 2017 the EU has stated Sri Lanka's that GSP+ will be re-instated.

#### **Related comments from the interview notes:-**

Company A, Senior Manager, Large Retailer.

"While the GSP+ was downgraded to GSP due to the EU ethical policy. The interviewee took another ethical view point to remain with the Sri Lanka's supply chain rather than change, as the supplier would be greatly affected by the EU's decision. This has allowed a more clear and transparent relationship between the importer and the supplier."

**Another view:-**

Company B, Senior Manager, Large Retailer.

“I agree that GSP+ was removed for good reason, but Sri Lanka is making positive changes regain the GSP+, therefore; in this context of the ethical view, the GSP has possibly helped to improve Sri Lanka’s circumstance. Therefore, there is a more clear and transparent approach from Sri Lanka.”

**Another view:-**

Company C, Director, UK Consultant.

“I think the overall conclusion is that GSP has not worked in developing markets. The EU look at regional sustainability, i.e. when looking at Vietnam and the impact of the region of the agreement. For example, if one country has a FTA but its neighbour does not, then the impact could possibly be that the neighbour loses its labour as they migrate to the FTA country to find work and a better standard of living. I.e. trade deflection and imbalance of economies.”

**Another view:-**

Company G, Director, UK Association Retail Sector.

“You have to understand that I am not worried if the goods come from Bangladesh or China and I can understand that there will be some very strong views on that. However, a good GSP will benefit the UK retailers as it will reduce their costs.”

**Overall comment:-**

Companies A, B, C and G were asked to comment on the ethics of GSP some responded with the overall view of what GSP is trying to achieve, others responded on how they ethically apply the GSP within their business. Another took the view that the GSP policy



is where the ethics should be considered and the businesses using GSP will reduce their costs by implementing it.

### **5.8.2. Is corruption an issue in relation to suppliers from LDC?**

Companies C, A and H had issues of corruption with their suppliers.

#### **Related comments from the interview notes:-**

Company C, Director, UK Consultant.

“The main example is the supply of fraudulent GSP forms over the last 18 months, 2015-2017, i.e. very good photocopies of forms with stamps. A number of companies scrutinise the retrospective forms to ensure that they will be accepted by UK customs. For example, they will have a reference sample to see if it is of the correct green and the correct background pattern. Photocopies are provided by the LDCs and it is difficult to tell if it original or not. However, HMRC have a machine through which they put the certificates to check for originality. “

#### **Another view:-**

Company A, Senior Manager, Large Retailer.

“Ask if the supplier is able to provide GSP certification. However, do not insist on getting one as they may supply a certificate without complying fully to preferential origin rules.”

#### **Another view:-**

Company H, Director, UK Consultant.

“There is an issue of fraudulent GSP forms over the last 18 months, i.e. very good photocopies of forms with stamps.”

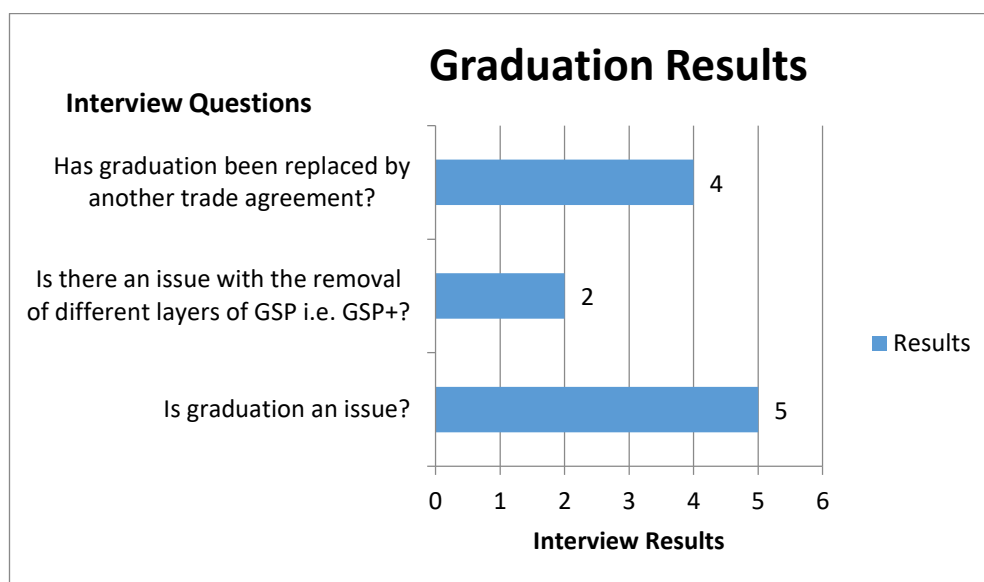
#### **Overall comments:-**

The main issue that Companies C, A and H commented on was the fraudulent supply of GSP certification. While some may suggest that this is due to a lack of education others will state that after communication from the importer the supplier still supplies fraudulent certificates. This has become so frequent that HMRC puts the certificates through a scanner to check for originality.

## **5.9 Graduation**

Product lines and developed countries which have are deemed to have an advantage on global trade due to the application of GSP, are removed in form of graduation. The interviewees were asked if this has affected their business.

**Figure 5.7 GSP Graduation.**



### **5.9.1. Is graduation an issue?**

Companies A, B, C, D and G had issues with graduation and it has had some impact on the application of GSP within their business.

**Related comments from the interview notes:-**

Company A, Senior Manager, Large Retailer.

“At the moment Vietnam is currently changing its trade agreement to a free trade agreement (instead of GSP) this has been signed but could take another 2 years for the legal process to take place and become active.”

**Another view:-**

Company B, Senior Manager, Large Retailer.

“Vietnam Free Trade Agreement is currently being followed closely and as the information is becoming more available it is becoming apparent that education/control of the levels of graduation could be an issue.”

**Another view:-**

Company C, Director, UK Consultant.

“Graduation impact has been less since 2014. Companies can check the country rating, i.e. Developed, Developing, and Lesser Developed on the World Bank web site. However, the EU are considering, India, Ukraine and Indonesia to remove tariff lines.”

**Another view:-**

Company D, Senior Manager, UK Medium/Large Manufacturer.

“Graduation of duty is less of an issue. However, GSP did get removed from Thailand on 1st January 2016 and this has had a massive impact on the business and we’re currently campaigning for it to be returned. As a business we were not consulted and the financial impact has been great.”

**Another view:-**

Company G, Director, UK Association Retail Sector.

“I think it is an issue, however, I cannot say how often it occurs. Sri Lanka and Myanmar; GSP was suspended all together with Myanmar for a period of time and GSP+ was suspended from Sri Lanka. The issue is one about certainty because the decisions to remove benefits or to reinstate benefits incurs a lot of politics, especially now that European Parliament is involved.”

**Overall comments:-**

Companies A, B, C, D and G stated that although graduation has had an impact at various times and will continue to do so in the future, it currently is not having a significant impact as they are informed as to which countries are changing. The graduation impact has reduced since 2014. Country ratings can be checked if they are due to become Developed, Developing and Lesser Developed on the World Bank web site. The EU are looking at the India, Ukraine and Indonesia to remove tariff lines. One interviewee provided an interesting point that if the EU importers reduce the level of importation of a product the EU will stop the GSP. The EU are looking at the GSP scheme from the importer’s view and, due to the reduction in demand, it is less of an impact on importers to withdraw the GSP. The main problem with graduation is that it is disruptive to a business and they are not able to plan with confidence.

### **5.9.2. Has graduation been replaced by another trade agreement?**

Companies A, D, G and H have had experience of GSP being replaced by Free Trade Agreements.

#### **Related comments from the interview notes:-**

Company A, Senior Manager, Large Retailer.

“There can be a time gap between trade agreements starting after GSP has been withdrawn. For example, Thailand is having political issues and therefore there is not a guarantee that a free trade agreement will be obtained.”

#### **Another view:-**

Company D, Senior Manager, UK Medium/Large Manufacturer.

“Graduation of duty is less of an issue. However, GSP did get removed from Thailand on 1 January 2016 and this has had a massive impact on the business and are currently campaigning for it to be returned”.

#### **Another view:-**

Company G, Director, UK Association Retail Sector.

“When the GSP changed in 2014, EU stated they were going for the lesser developed countries and they removed all the countries that were middle ranked economies by the World Bank. This sent a big shudder across the EU because it lost Brazil. Brazil is a very key trading market and it did have a major impact. The EU stated that this should not be a problem as a FTA would be available. However, it is three years later and still the FTA has yet to come into force.”

**Another view:-**

Company H, Director, UK Consultant.

“Many of the Free Trade Agreements that have been negotiated by the EU are waiting legal scrubbing before they will be implemented and this can take years. You have to be alert to the various markets and FTAs currently going through to be able to plan accordingly. Many companies use specialised companies to follow the various FTAs. There may be future cases of GSP being graduated and FTAs to come in but this is not guaranteed.”

**Overall comments:-**

Companies A, D, G and H have shown that there has been an issue of a time gap between the various trade agreements starting once GSP has been withdrawn. Thailand is an example and at the moment due to the political issues there is no guarantee that a free trade agreement would be obtained. GSP is on a 10 year rolling program which allows countries to join and leave at any time.

**5.9.3. Is there an issue with the removal of different layers of GSP i.e. GSP+?**

Companies A and C had an issue with the removal of GSP+ and replaced by GSP.

**Related comments from the interview notes:-**

Company A, Senior Manager, Large Retailer.

“The one that interviewees provided as an example was Sri Lanka; they were provided with GSP+ status by the EU, however, this was removed due to human rights, financial and trade issues. Under GSP the duty is reduced to 9.6%, however, with GSP+ reinstated the EU import duty will go to zero. (EU reinstated GSP+, May 2017).”

### Another view:-

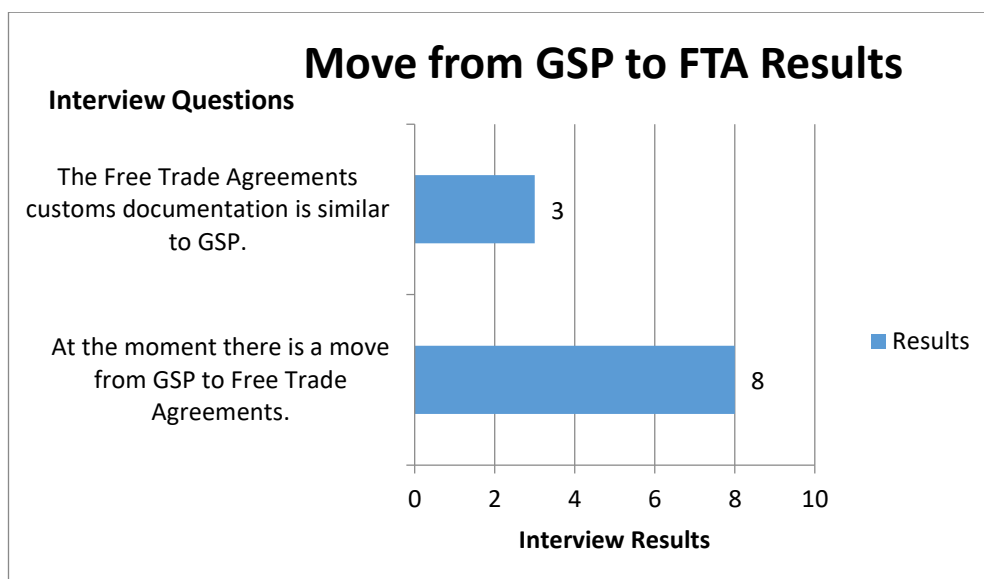
Company C, Director, UK Consultant.

“Sri Lanka is still without GSP+, but they have been very active in trying to get this status back again. The Government has been re-elected. There have been several visits by EU officials to Sri Lanka and they, in turn, have visited Brussels. Sri Lanka is trying to ensure that their issues have been improved so GSP+ can be reinstated.”

## 5.10 Move from GSP to FTA

Recently, the EU have removed some GSP schemes and replaced them with a FTA. However, there may be a timing issue between the GSP scheme being dropped and the application of the FTA. Interviewees were asked if they had knowledge of this and if they have been affected.

**Figure 5.8 Move from GSP to FTA.**



### **5.10.1. At the moment there is a move from GSP to Free Trade Agreements.**

Companies A, B, C, D, E, F, G, and H agreed that GSP is being moved, by the EU, to Free Trade Agreements. This is a strong response to this issue and the interviewees have had knowledge of this practice.

#### **Related comments from the interview notes:-**

Company A, Senior Manager, Large Retailer.

“Bilateral agreements take time to come into force and the interviewee will keep checking each month for any changes. There is movement from GSP to FTA.”

#### **Another view:-**

Company B, Senior Manager, Large Retailer.

“We are aware that there may be future cases of GSP being graduated and then the Free Trade Agreement to come in. India did bring this to fore for us.”

#### **Another view:-**

Company C, Director, UK Consultant.

“The comment that if a country is coming out of GSP then a FTA would be put in place has not really been happening. E.g. Thailand has come out of GSP and, as yet, the FTA has not been signed, along with Brazil and Russia.”



**Another view:-**

Company D, Senior Manager, UK Medium/Large Manufacturer.

“Graduation of duty is less of an issue. However, GSP did get removed from Thailand on 1 January 2016 and as yet the FTA has not be put in place.”

**Another view:-**

Company E, Director, UK Association Manufacturing sector.

“Fair trade will make preferential trade less likely. Fair trade will become the norm as it brings issues such as carbon waste, dumping and environmental costs. “

**Another view:-**

Company F, Director, Multinational Pharmaceutical Manufacturer.

“The GSP allows you policy flexibility within a space and within that you can do what you want, rather than a FTA. However, FTAs are being undertaken.”

**Another view:-**

Company G, Director, UK Association Retail Sector.

“UK and Thailand will take more time to negotiate a FTA, but it may be quicker than waiting for the EU, who have removed the GSP and, as yet, not replaced it with the promised FTA.”

**Another view:-**

Company H, Director, UK Consultant.

“There is the point that this has not been too much of an issue as the FTAs have yet to be signed and go through the legal ratification process. E.g. Vietnam, although signed and is currently in legal scrubbing, which takes a minimum of 18 months, but as yet, there has not been an implementation date, currently looking at 2018. However, another comment was that the US has reinstated GSP with Thailand.”

**Overall comments:-**

Companies A, B, C, D, E, F, G, and H have shown there is an argument for GSP to continue, rather than be replaced by a FTA, is that GSP allows you policy flexibility within a space and within that you can do what you want. Another argument is that there will be a move away from trade agreements, per say, as the world will not be focusing on the free trade but more on the fair trade. The interviewees felt strongly that there is a case that the GSP is being removed and the intention to replace the GSP with a FTA has left many continuing to pay full import duty until the FTA has been legally ratified. This has a detrimental impact to the supply chain.

**5.10.2. The Free Trade Agreements customs documentation is similar to GSP.**

Companies A, B and D gave a positive response. The documentation for GSP has been noted as being very complex and therefore may be a barrier to gaining preference from a FTA.

**Related comments from the interview notes:-**

Company A, Senior Manager, Large Retailer.

“Free trade agreements do not make any difference as the documentation, the origin rules are similar, as well as the administrative costs, as GSP. It depends on the country. Myanmar/Burma has recently come into the global trade market providing of 0% duty and the quality of goods are maintained.”

**Another view:-**

Company B, Senior Manager, Large Retailer.

“FTAs are similar to GSP and therefore have the same complex administration issues.”

**Another view:-**

Company D, Senior Manager, UK Medium/Large Manufacturer.

“Rules in relation to the UK are fairly straight forward and for the Free Trade Agreements they are laid down.”

**Overview comments:-**

Companies A, B and D have shown that Free Trade Agreements do not make any difference as the documentation to the process complexity is similar to GSP in relation to the country of origin rules and the administrative costs. Another point made is that the rules of UK are fairly straight forward in relation to the Free Trade Agreements they are laid down. However, the current Free Trade Agreements that the UK applies are negotiated by the EU.

## **5.11 Summary**

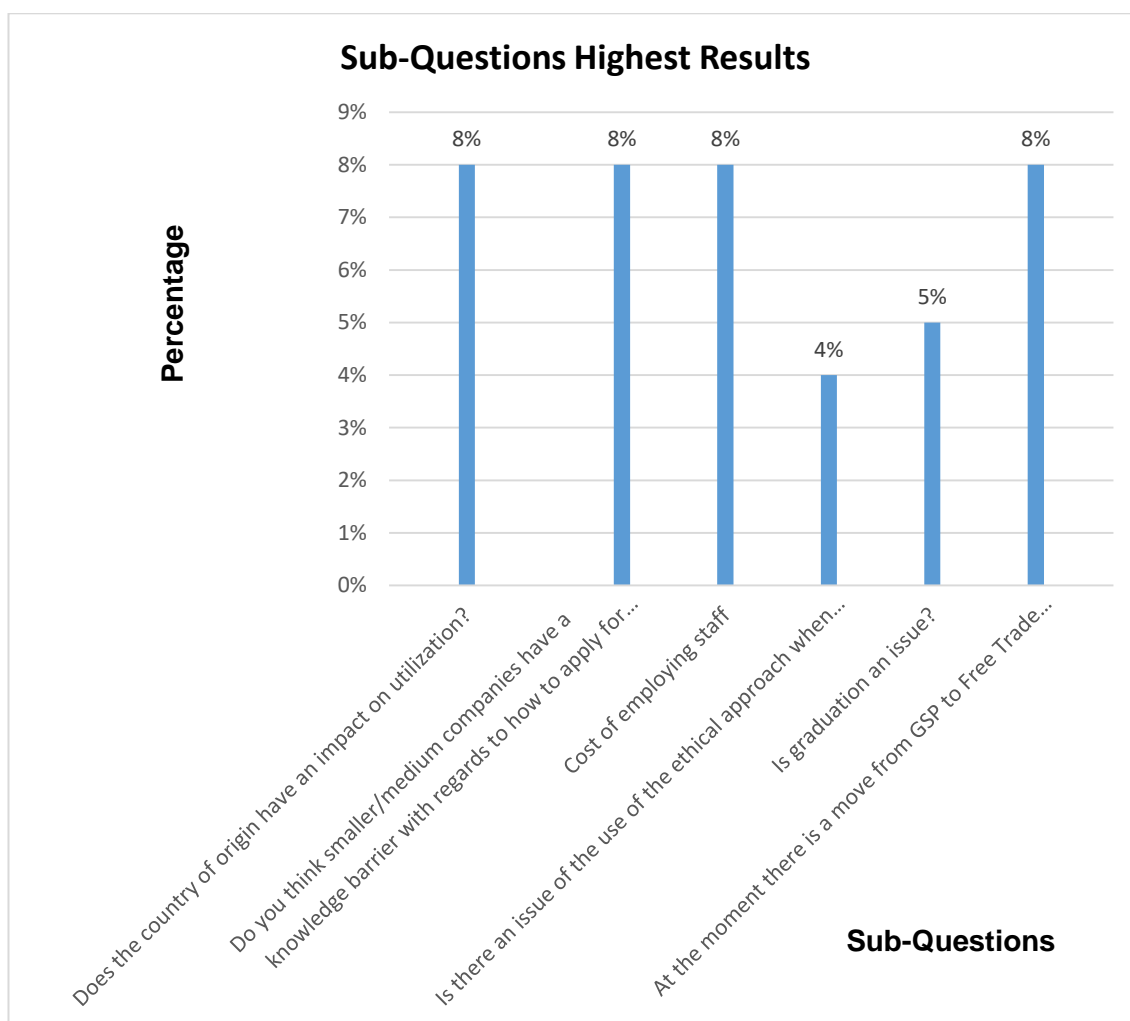
The results of the single questions and sub-questions that are grouped within the ten categories are summarised to provide an overview of the results. The responding views were evenly spread between the business, associations and consultant interviewees.

### **5.11.1. Single questions**

The question that provided the strongest result of five within the single question category was the change of approach by HM Revenue and Customs, the detail of which is shown in 5.4.2. However, the protectionist element of GSP shown in 5.4.3, and the use of freight agents, shown in 5.4.4, both had results of three and thus appeared to be weaker in the overall results.

The sub questions have provided a more in depth view of the interviewees approach to the issues UK importers have when applying GSP. The results of the main sub-questions from the six categories have been grouped together within figure 5.9 page 180.

**Figure 5.9 Sub-Questions Results Summary.**



Within the sub-questions it is clear that country of origin/rules of origin, knowledge barrier to the smaller/medium companies, cost of employing staff and the move from GSP to FTAs have rated highly with the interviewees as issues which they consider to be relevant to the application of GSP. While the graduation and ethical categories, while considered important by some interviewees, were less strong in the analysis.

### **5.11.2. Administration Issues**

The administration issue is the strongest category, shown in figure 5.3 page 131; with the country of origin/rules of origin showing the highest concern in relation to the impact of the application of GSP with all except one of the interviewees responding. The cost of processing the documentation had a high result with seven of the interviewees stating that this is an issue. Six of the interviewees felt that the documentation with regards to the importer is an issue when applying GSP. However, this was lower result of four interviewees in relation to exporters. Only one interviewee felt that the administration should be removed to allow a less complex application of GSP.

### **5.11.3. Availability of knowledge**

The availability of knowledge proved to be the second strongest category, figure 5.4 page 142, with all except one of the interviewees having concerns that the smaller, medium companies may be limited by not having any knowledge in relation to the GSP scheme. Therefore could be losing out on cash flow or putting themselves at risk of penalties due to lack of legal knowledge. The supplier's education is shown as a concern to interviewees with six highlighting an interest. Interestingly, by using Europa web site as a source of knowledge, companies are able to follow trade agreements. Larger companies are able to afford the knowledge and utilize the preference, all had the same result of five interviewees stating this as an issue. This highlights that there is a strong knowledge sourcing by the interviewees to keep up to date with the GSP policies. Along with a feeling that it is the larger companies that have the edge being able to afford the access to the knowledge and allow staff time to keep abreast of the GSP- trade knowledge base. Interestingly, only three interviewees agreed that lobbying within the GSP process was undertaken.

#### **5.11.4. The application of costs in relation to GSP**

The costs in relation to the application of GSP was the third strongest category, figure 5.5 page 156. The cost of employing staff is the main concern for all except one of the interviewees; this cost will also include staff training and maintaining staff knowledge. The risk of penalties at six positive responses, due to the complex administration and legal documentation that has to be applied and HM Revenue and Customs, finding easier to issue penalties rather than educate. The GSP savings being treated as a bonus with five interviewees, due to the lack of control and of GSP. Most interestingly, the question of including the GSP in the main plan has three positive results; who were confident that they can apply the GSP and therefore felt able to include within their business plan. This shows the interviewees had very different approaches on how they treated GSP saving within their businesses. Three of the interviewees put quality before the cost saving of GSP.

#### **5.11.5. Governance Results**

This was the weakest result, figure 5.6 page 166, with four of the interviewees concerned with the ethical approach which regards to the application of GSP while three of the interviewees had issues with suppliers in relation to corruption with regards to the documentation.

#### **5.11.6. GSP Graduation**

This was the second weakest, figure 5.7 page 169, within the six sub-question categories. With five of the interviewees sighting this as an issue and four interviewees stating that GSP was a problem when being graduated out and replaced by another trade agreement. two interviewees had issues of removing different layers of GSP for example moving from GSP + to GSP.

### **5.11.7. Move from GSP to FTA**

This proved to be the fourth strongest category, figure 5.8 page 174, with all except one of the interviewees agreeing that the EU is moving from the GSP trade scheme and replacing it with Free Trade Agreements. Three interviewees stated that the documentation in relation to the application of the FTA is similar to the GSP scheme.

### **5.11.8 Summary of data**

Overall the data provided within the interviews has provided an insight to the difficulties importers have when applying GSP. Interestingly one issue that had a strong response was the remoteness businesses felt from the GSP policy making process. As policy changes will have a direct impact on their business strategy.

There was concern over the way the HM Revenue and Customs are currently administering overseeing the application of GSP by UK importers. They have moved from providing education for business to issuing demand notices, which has meant that some importers are now just paying the duty on goods, rather than apply for GSP.

The majority of interviewees agreed that the EU use GSP as a protectionist tool, and therefore the GSP policy changes are politically based.

The use of freight forwarders provided a mixed response as they provide a service to importers who do have the knowledge base to implement GSP application. However, there was a strong view that these importers do not realised that the import documentation is the responsibility of the importer and not the agent. Therefore the importer could still be fined if GSP has been applied for incorrectly.

The strongest three results within the Administration category were:-

1. Issues with Country of Origin/Rules of Origin.
2. Cost of administering the GSP.
3. The level of documentation undertaken to apply for GSP.



Overall the main issue commented on with the Rules of Origins is that they are too complex and the responsibility of the correct application is with the importer. Very often if the percentage of duty saving is 3 percent then it simply will not be cost effective to apply for. The overall level of documentation was noted as being cumbersome.

The strongest results within the available of knowledge section were:-

1. Smaller and medium companies have a knowledge barrier in relation to GSP.
2. Education of suppliers.

The interviewees felt strongly that smaller and medium companies whose cash flow would benefit the most from GSP will not have the knowledge ability to apply GSP.

Suppliers seem to not appreciate the importance of the documentation required and provide often copies.

The two main costs that importers have when applying for GSP is the cost of employing staff to administer GSP. The cost of paying penalties is the other main cost provided by the interviewees.

The issue of moving from GSP policy to FTAs provided a strong result as the interviewees felt that this was the EUs current trade policy.

Interesting the weakest areas were consideration to governance and the effects of graduation. Interviewees did not really feel that governance was a big issue and few had been recently affected by graduation.

The transcripts provide a clear insight to the main concerns UK importers currently have when applying GSP.

## 5.12 Conclusion

The data collected from the interviewees has provided a clear indication of the elements of the GSP scheme which UK importers have issues with applying for GSP.

1. Do you find the administration an issue, in particular compliance with the rules of origin?
2. Do you have an issue with keeping up with the legal knowledge and application rules?
3. Is the cost of application an issue?
4. Do you think the EU are moving from GSP to FTAs?
5. Has graduation been a problem?
6. Do you consider governance when applying for GSP?

The categories shown are ranked one to six, one being the strongest response and six being the weakest response. This highlights that administration and the compliance of the rules of origin is the main issue for the interviewees when applying GSP. However, governance is the weakest as it is not a main concern to the interviewees when incorporating GSP within their business plans.

The singular questions are ranked as follows:-

1. Do you feel remote from the EU GSP regulators?
2. Has the approach to GSP from HM Customs and Revenue changed?
3. Do you think GSP is being used as a protectionist tool?
4. Have you ever used or considered using, import agents?

The remoteness from the GSP policy makers is strongly felt among the interviewees as changes within the policy can have a direct impact on their business. Many of the interviewees felt that they were unable to challenge any changes that effected their business and they were reactive rather than proactive in the decision making process. The consideration of using import agents is ranked as the lowest issue. This is possibly due to the majority of interviewees representing large companies which had access to in house expertise.

Overall the interviewees have provided an invaluable source of data and allowed an in depth analysis of the various issues in relation to the application of GSP from a UK importer's point of view.

Within the interpretation of the evidence chapter these findings are used to triangulate and support the findings within the historical research.

## **Chapter 6 Brexit**

### **6.1 Introduction**

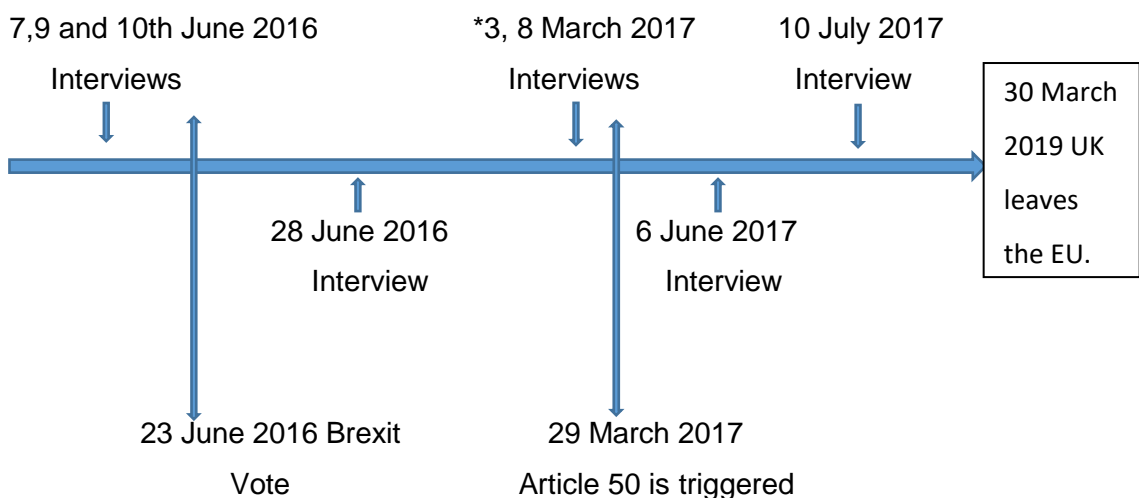
This chapter discusses how the yes vote of the UK to leave the EU on the 23 June 2016 is having an impact on UK importers. While this was not initially within the main research undertaken when collecting data, the interviewer felt that it had great significance on how businesses approach international trade. It could have direct impact in relation to the utilization of Generalised System of Preference and free trade agreements. Therefore, Brexit was included in the interviews as this will have an impact on future GSP and FTAs and the interviewees are able to provide in depth and informed opinions with regards to this issue. As Brexit is developed it has become more relevant to the research undertaken, with a direct impact on how the future UK international trade is to be established. The aim of the chapter is to provide a snap shot of leading UK businesses' views at this focal point of UK policy making. Also to establish the issues that concern UK businesses over the time line of just before the vote, immediately after and a year later. It highlights the concerns businesses have and the issues which are important to them when trying to continue their businesses during this time and after the UK leaves the EU.

The chapter provides an introduction to the Brexit mechanism and a timeline between the interviews taking place showing the significant points in the Brexit process. The methodology of how the interview results were collated and summarised into final seven categories is also discussed. These categories then form the main part of the chapter. The findings are justified, where possible, with academic underpinning, however, as Brexit policy is still being formed a number of current affairs articles are also used. The House of Lords European Union Committee provided a detailed report using witnesses from different sectors to establish the issues in relation to the trade in goods and Brexit. This has been referred to throughout the chapter, along with other appropriate articles. The EU view at the point of writing is considered. However, at the time of writing the trade policy in relation to Brexit and after Brexit has yet to be discussed in detail and this has provided a significant level of uncertainty.

## 6.2 Brexit

Since the 23 June 2016 referendum, Brexit has been at the forefront of International Trade and UK businesses are anxiously waiting for the UK approach to trade. In particular in relation to the EU and with Non EU countries to be known after the UK leaves the EU in March 2019. As this will likely have a major impact on international trade, free trade agreements and preferential trade. The semi-structured interviews also reflected data from the UK importers who had some interesting thoughts at this time. Therefore, within this chapter, the data collected from the interviews, in relation to Brexit, will be analysed and used to see if there is any correlation between the importers and how they view the Brexit situation. The date of the first interview was 7 June 2016, which was just before the vote and the last interview took place on 10 July 2017. A time line shown in figure 6.1 below, shows when the interviews were undertaken in comparison to the timeline of the Brexit process to date.

**Figure 6.1 Interviews in relation to Brexit timeline**



\*Two interviews undertaken on the same day.

The interviews were undertaken at different stages of the initial development of the Brexit policy. The interviews were from the following fields, retailers, manufacturing, pharmaceutical, associations and consultancy. (see chapter 5). However, in relation to trade they all had the common ground with regards to the application of GSP and how it

is applied. The fact that they were from different sectors did not come across within their responses.

At the beginning, (prior to the referendum) the interviewees were asked if they have policies in place if the vote was to come out. These companies stated that, although they wanted to plan for both results of the vote, the information provided by the government did not consider in depth the element of trade and the impact on trade to UK businesses if the UK did leave. The businesses were trying to establish their strategies if the UK did leave based on assumption. The interview taken immediately after the vote was concerned with trying to locate information from the UK government's contingency plan in relation to the effects on international trade if the vote was to leave. (Later it was found that the UK government had not formed such a contingency plan). The interviews that followed were concerned with the sort of relationship the UK is to have once it has left the EU. For example belonging to the Customs Union, being part of EFTA or for the UK to be independent of the EU. Also discussed was the prospect of having a transition period to enable trade agreements to be put in place. The continuation of GSP was discussed, as a possibility, due to the ease with which it could be put in place and be in use while FTAs are being negotiated. One thing that has become clear is that UK businesses are uncertain as to the nature of the relationship that the UK will have with the EU and with regards to international trade once the UK leaves. This uncertainty is having an impact on UK business as they are unable to plan for the future.

### **6.3 Interview results**

The transcripts of nine interviews were analysed for common themes. Figure 6.1 page 188, shows the time of these interviews; three took place before the vote on the 23 June 2016; one was immediately after the vote on 28 June; three were just before article 50 was implemented on 29 March 2017 and the remaining two were in June and July 2017. Due to the different timing in relation to the progression of the Brexit policy the interviewees provided different views which show interesting conjecture on the whole process. The main content of the interviews was in relation to the Generalised System of Preferences and free trade agreements. The Brexit element is only a small part of the research undertaken. However, due to Brexit having a big impact on the UK trade policy,

it was felt that it should be considered as part of the research undertaken as it a very relevant in relation to the future of the Generalised System of Preference.

The interview transcripts were reviewed and common subject themes were developed as follows:-

Is there interest in the referendum?

Concern with the limited number of experienced UK government officials in International Trade.

It will take longer than 2 years to negotiate the trade aspect of the UK leaving the EU.

Uncertainty for UK business in relation to Brexit.

Would the EU customs system be available?

Uncertain re the outcome of the vote.

Will the UK be considered as a global economy?

Will the UK continue with GSP?

Are UK businesses concerned that Brexit will increase costs?

Businesses are suggesting that a transitional period be negotiated.

GSP could improve under the UK domain.

EU customs law transferred into UK customs law.

The subject themes were developed further to the following:-

T1 Will the UK be at a disadvantage as a global economy?

T2 Will the UK improve as a member of the global economy?

T3 Will the EU customs law be transferred into UK customs law?

T4 GSP to continue and to be improved.

T5 Increased cost to UK business.

T6 Two years is too short for transitional period.

T7 Uncertainty within UK business with regards to Brexit.

These themes were then reordered into their similarities by allocating codes. T = Theme.

Will the UK be considered as a global economy?

This is split into two themes:-

T1 Will the UK be at a disadvantage as a global economy?

T2 Will the UK improve as a member of the global economy?

T3 EU customs law to be transferred into UK customs law.

T3 Will the UK continue with GSP?

T4 GSP could improve under the UK domain.

T5 Are UK businesses concerned that Brexit will increase costs?

T5 Would the EU customs system be available?



T6 It will take longer than 2 years to negotiate the trade aspect when UK leaves the EU.

T6 Businesses are suggesting that transitional period will be negotiated.

T6 Concern with the limited number of inexperienced UK government officials International Trade.

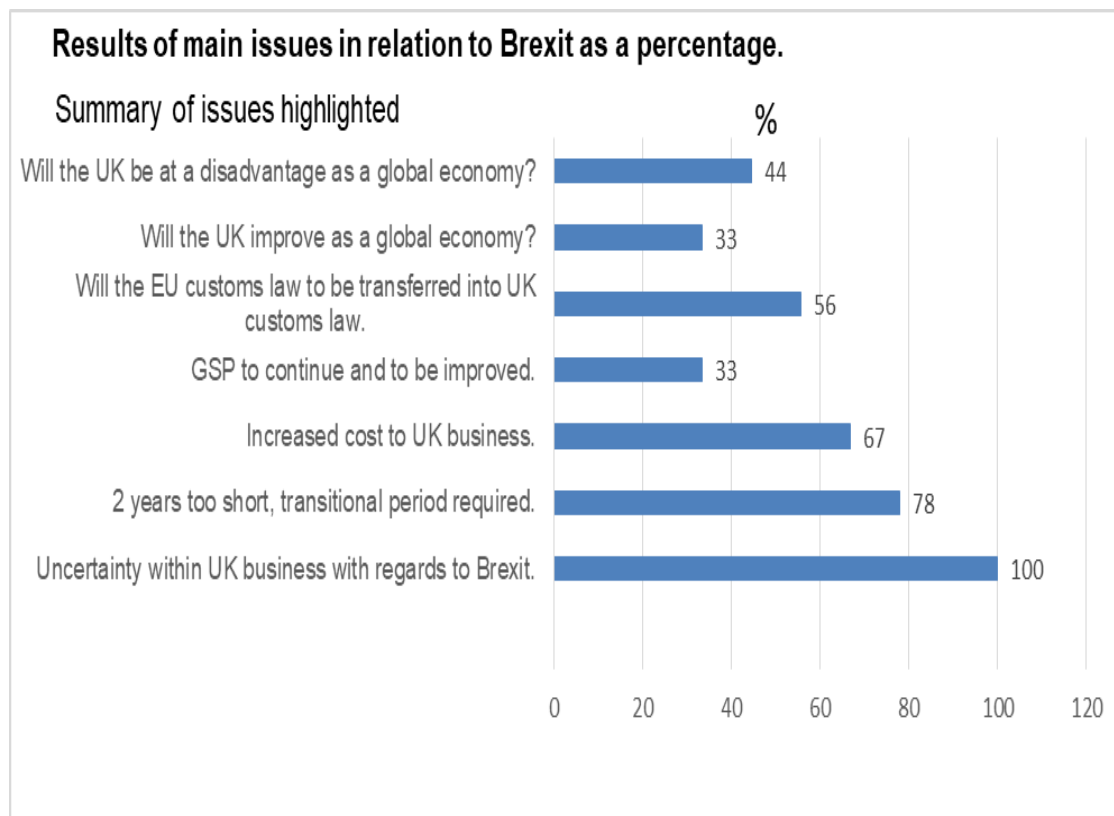
T7 Uncertainty for UK business in relation to Brexit.

T7 Uncertain as to the outcome of the Brexit vote.

This approach was undertaken as it was the most appropriate way of developing the data into common themes across the interview sample to obtain any correlation with the interviewee's answers.

Shown in figure 6.2 page 193, are the results in relation to the interview data, shown as a percentage.

**Figure 6.2 Interview comments on Brexit**



#### **6.4 Will the UK be at a disadvantage as a member of the global economy?**

Forty four percent of the interviewees (shown in figure 6.2 above) felt that the UK would be at a disadvantage after leaving the EU in relation to being competitive within the global economy. 3rd March 2017, Company E, Director, UK Association Manufacturing sector, suggested the UK is the 5th or 6th largest economy but it is declining in its proportion of the global economy and therefore may not be as effective in gaining trade agreements. 7th June 2016, (Company A, Senior Manager Large Retailer), the interviewee observed the risk of other countries not wanting to trade with the UK due to it no longer belonging to the EU. On the 10 July 2017 the interviewee suggested that they have concerns with the UK supply chain, as any delay in the chain due to incomplete documentation, i.e. 6 hours or a day alone, means a loss of time, money and a loss of competitiveness. Keeping the trade flows moving is a very big aspect of business in general; Brexit is

currently putting UK trade into limbo and global supply chains are starting to be re-assigned outside the UK due to the uncertainty.

The House of Lords (2017), suggested that some businesses would take the leave outcome as being a very serious result and would be questioning if their business is to remain in the UK or should be moved to another EU country. Over the first few months after the referendum, there have been many examples where businesses are making such plans regardless of the outcome of Brexit as this is seen as too uncertain. Following 23 June 2016 UK Sterling has fallen and this has brought benefit to exports; it has, in turn, raised the cost of imports. As a large proportion of UK exports are part of a global supply chain they also are reliant on imports. The overall effect is complex and would be taken into consideration for the global supply chains to remain in the UK; Multinationals are deciding to relocate to (non UK) European countries to ensure that the supply chain is maintained.

There is the issue that the UK could negotiate and sign FTAs with Non-EU countries and this would in turn benefit UK business, however, businesses are unsure how this would benefit them in the short term as the UK can only negotiate FTAs once the UK has left the EU. Therefore, the trade agreement negotiations cannot start until after March 2019; this will take a number of years and a further two years for them to be legally ratified. In the meantime, the UK will be at a disadvantage within the global economy. House of Lords (2017).

## **6.5 Will the UK improve as a global economy?**

33 percent of businesses, (shown in figure 6.2 page193), felt that the UK will improve within the global economy with regards to international trade. Some of the views were that the UK will be able to negotiate on its terms rather than having to have 27 other countries voting on trade terms. This would mean that the UK should have the freedom to create its own Free Trade Agreements. However, as the UK is a member of the WTO, these agreements will still have to be within the parameters of the WTO. On the 8th March 2017, (Company G, Director, UK Association Retail Sector), nine months after the vote, an interviewee observed that:-

“It is quite possible that the manufacturing site in the UK, if the UK was successful in getting a trade agreement with Australia or the USA, then suddenly you have a manufacturing plant within the UK which has a trade deal with the biggest market in the world market which the EU has not got. That would be a big advantage to keep your manufacturing within the UK and not to relocate. These agreements could be replicated quite easily using the existing agreements. The rest of the world opens up dramatically and the UK cannot do any deals on their own at the moment as the UK has to go via the EU. However, neither can Turkey as they are locked into the EU customs union.”

On 6th June 2017, Company H, Director, UK Consultant, highlighted that companies are already taking action with regards to the Brexit situation rather than remaining in uncertainty. One multinational has brought their Danish competitor, so for the EU supply chain Denmark will be the manufacturing hub while the UK will be the manufacturing centre for the rest of the world. From this action the Multinational should have maintained its global supply chain.

However, the new trade agreements being negotiated it will provide a generalised system of preference LDCs with an opportunity to improve their trade relations with the UK and this would provide the UK with access to a global supply chain. Jones (2016). The House of Lords (2017), p77, referred to a (UK) Prime Minister’s speech on 17th January 2017;

“Many in Britain have always felt that the United Kingdom’s place in the European Union came at the expense of our global ties, and of a bolder embrace of free trade with the wider world ... it is time for Britain to get out into the world and rediscover its role as a great, global, trading nation”.

The UK Trade Policy Observatory (UKTPO), University of Sussex, acting as a witness within the House of Lords (2017), considered that there is an opportunity to increase trade with non-EU markets. The EU has currently launched FTA talks but, as yet, they are still to complete legal ratification with the US, Japan, India, China, Australia and New Zealand. Interestingly, in 2015 21.7% of UK goods were exported and 21.9% of goods were imported from these countries. Therefore, it would be to the UK’s advantage to negotiate trade agreements as it would have an impact on at least 20% of UK trade.

Once Brexit has been undertaken and the UK can start to negotiate the Free Trade Agreements; there appears to be an opportunity for global trade with the UK to expand. However, it takes years to negotiate, and legally ratify, a trade agreement.

## **6.6 Will EU customs law be transferred into UK customs law?**

A large percentage (56% shown in figure 6.2 page 193), are under the impression that the Brexit negotiators will be able to transfer over the EU customs law into UK customs law. This will make the transition a lot smoother and allow UK businesses to continue with the current EU electronic customs system. It has been developed to provide full European harmonisation and is to be completed by 2020. Therefore, UK businesses have been encouraged to invest in this system over the last five years and it would be cost effective if this system was to continue.

When considering the current position with the customs law an interviewee, (10th June 2016, Company C, Director, UK Consultant), reflected that currently the UK has the Customs and Excise act 1973, but not a current Customs law. No Customs law has been amended since the UK joined the Customs union in 1993. Currently, there are the Customs laws, trade agreements and GSP in place and if the UK comes out of the EU then this will be lost, along with the trade certainty. However, the UK still has UK law on GSP as this was available before the UK went into the EU; it could be revisited and amended as this is a possible assumption.

An interviewee (7th June 2016, Company A, Senior Manager Large Retailer), observed that EU customs' law, which could become the basis of the UK customs in the future, would also make the UK more comparable with the EU systems. Currently, the EU law withdrawal bill is going through UK parliament, February 2017, and this will allow the existing EU legislation to be copied into domestic UK law which includes trade legislation to allow a smooth transition immediately after Brexit. BBC (2017).

Therefore, in relation to the GSP policy, Stevens & Kennan (2016), consider that due to the time limitations the UK could initially use the pre-existing EU regime if this is legally and politically feasible. This would allow the GSP to be developed after leaving the EU.

However, there is the issue of uncertainty at the moment on how the UK is going to continue after leaving.

## **6.7 GSP to continue and to be improved**

33 percent (see in figure 6.2 page 193) of the interviewees felt that the Generalised System of Preference would have the ability to continue. Some felt this could be used as a temporary bridge once the UK leaves the EU and while the free trade agreements are being negotiated. This is due to GSP not being part of GATT and therefore falls outside their restrictions, however, GSP does fall within the parameters of the WTO. Also discussed was the opportunity to be able to review the rules of origin to try and make them simpler. The UK could reinstate the GSP; the countries which have had their GSP stopped but as yet have not had it replaced by a FTA, an example being Thailand. The UK would have the advantage of continuing to trade with LDC and allowing a reduction of cost on importation. As a number of UK supply chains are linked into the LDC this would keep the chain viable as well as continually enhancing the LDC economy through trade.

Interestingly, an interviewee (8rd March 2017, Company G, Director UK Association Retail Sector), noted that by continuing with GSP, improving the origin rules and by changing the terms so that less products are graduated out, their members would have saved approximately £400m on duties which they have paid.

An interviewee, (7th June 2016, Company A, Senior Manager Large Retailer) before the vote considered that there may be an issue as the GSP would have to be renegotiated. Another interviewee (9th June 2016, Company B, Senior Manager Large Retailer) again before the vote, suggested that there is a case where GSP could be implemented quicker (i.e. within the 2 years) and used while the trade agreements are being formed, which will take longer. In an interview after the vote (3rd March 2017, Company E, Director, UK Association Manufacturing sector) the interviewee suggested that one of the very first things that the UK will do when it reaches a position of being able to; is to put in place what would be called an autonomous preference scheme for imports from developing countries; in other words a UK version of the Generalised System of Preferences. This

will provide a GSP regime that is similarly beneficial to LDCs as that currently operated through the EU.

Stevens & Kennan (2016), discussed the opportunity of having a wholly new GSP allowing trade to continue immediately after Brexit and also able to develop a more friendly UK trade policy. There is a practical view that no external negotiations are undertaken. Although it would be an extensive task, due to the time limit to finalise the GSP policies before March 2019, the timetable of getting the GSP system in place would be entirely under the UK government's control. The House of Lords (2017) considers that the WTO members are allowed to accommodate LDCs, using a differential and more favourable treatment, without the requirement of applying it to all the WTO member. An example of GSP was considered in the 1971 GATT decision. More importantly the countries can decide how they wish to adopt the GSP scheme and its framework. Rt Hon Lord Bates, Minister of State for International Development, The House of Lords (2017), p73, has commented that the UK is committed to LDCs reducing poverty through trade and the UK had made it clear that it wants to continue with this policy after Brexit. The House of Lords (2017), concluded that the current framework of the EU's preferential trade is a good tool with regards to foreign and development policies. There is a possibility that when the UK leaves these agreements will no longer be available, as they cover a wide range of developing countries, i.e. ACP and LDC groupings they express the UK Government's commitment to continue and look to improve access to these groups by including a UK generalised system of preferences.

## **6.8 Increased cost to UK business**

A high proportion of 67 percent, (see figure 6.2 page 193), of the interviewees felt that Brexit will increase costs to UK businesses. Many felt that due to the uncertainty businesses are unable to plan ahead and make investments. This could be costly later on with regards to global competition. Some UK businesses that are within a global supply chain, may find that they are taken out of the supply chain as the multinationals look to a safer EU alternatives.

A leading consultant in this field, when interviewed, (6 June 2017), suggested that they have had feedback from a motor vehicle company that if they have tariff barriers with the

EU they estimate the cost of completing the additional paper work at cost £1.4 million per year. Currently, seventy per cent of cars made in the UK are sold to the EU; if tariffs were to be introduced, then the WTO duty applied would be 10% on the cost value of the car when entering the EU.

Another interviewee, (8th March 2017, Company G, Director, UK Association Retail Sector), suggested that it is very interesting at the moment; “there are ups and down sides to leaving the EU and we do lots of Euro trade and we do not want lots of extra work of paying duty.”

General comments from various interviewees in relation to the costs of trading with the EU follows:-

“There is a cost of processing imports and exports to and from the EU with which the UK currently enjoys free flow of trade. These costs relate to many aspects, for example, training/employing staff to process the documentation, the possible slowing down at borders for documentation to be examined. If it is not correct the cost of the goods held at the border until the correct documentation is supplied. The goods may have to cross a number of EU borders before they get to their destination. It is not just the tariffs that could be an issue but also the VAT which will have to be accounted for. The interviewees were also concerned that the current HM Revenue and Customs electronic system may not be able to cope with the large increase of transactions if UK businesses have got to produce import/export documentation from the EU. One interviewee estimated that trading with the EU with border controls will increase the number of customs entries from 90 million to 300 million; this covers both import/export. On 10th July 2017, Company I, Director, Multinational Manufacturer had concerns that the electronic system in place to deal with imports and exports was for a lower level of trade. The level of trade documentation after the UK leaves the EU will be increased dramatically and therefore will the electronic system be able to cope? 10th July 2017, Company I, Director, Multinational Manufacturer, was concerned with regards to the costs and the UK smaller companies, some of whom were part of a supply chain, who currently do not have to consider import/export documentation when dealing with the EU. These suppliers are lacking in expertise to complete custom forms and this will be an issue if they have to complete extra documentation when trading with the EU; they will have to develop expertise from scratch, with associated costs, time and money. They may have to start



using the rules of origin which this will entail a lot more in depth administration and require expertise and personnel to deal with it. This, in turn, may hold up our supply chain.”

The House of Lords (2017) recommended that the Authorised Economic Operator (AEO) scheme should be continued by the UK Government and the AEO system be included in UK law after Brexit. While it will not remove the customs checks required between the EU and UK after Brexit the additional costs from the increased administration, for those businesses that currently have invested in the system, will be lower.

If the free trade agreements or GSP agreements are not transferred from the EU then after March 2019 full WTO tariffs will be implemented. Therefore, costs of imports from, say, a LDC which is currently at zero import tariff charge could rise to twelve or fifteen percent at midnight on 29th March 2019. This increase would have to be passed onto the consumer who will notice a large price increase in a short period of time. However, once the trade agreements and GSP have been negotiated then over time these prices would reduce, but there is no guarantee as to the length of time this will take.

The House of Lords (2017) highlighted that the UK will find it difficult to maintain access to the EU's FTAs with third countries after Brexit, unless the EU allows the UK to transfer the EU's current FTAs into UK trade law. Taking this into account and the fact the UK is not able to conclude any new FTAs outside the EU until after it has left the EU could result a preferential trade not being available. If this was the case there would be a significant rise in tariff costs and thus reduced market access for many LDCs. This is another argument for EU trade law to be transferred into the UK trade law.

## **6.9 UK has two years, from date article 50 is triggered is too short, transitional period required**

78 percent, (see figure 6.2 page 193), of interviewees felt strongly that the two year time window from the date of triggering article 50 would not be long enough to prepare the UK to fully break from the EU. Many were concerned that there is a lack of experienced trade negotiators within the UK civil service to be able to cope with the work load of re negotiating the Free Trade Agreements and the Generalised System of Preference agreements. Interviewees stated that it has been the EU who have negotiated the trade

agreements and not the UK for the last four decades. This has also been highlighted in the UK press and Henley (2017) reported that the EC negotiates on behalf to the EU's 28 member states and the UK, since joining in 1973, has not had to negotiate trade agreements by itself. There will be a level of negotiation required even if the EU transfers the current agreements over to the UK in March 2019. The House of Lords (2017), stated concerns that the Secretary of State for International Trade's current plans to agree FTAs with 15 countries soon after leaving the EU may be ambitious due to the UK Governments, incapacity to negotiate the trade agreements. This is due to the trade negotiations being very complex and time consuming. Interestingly, the two companies interviewed on the (7th & 9th June 2016) Company A & B, Senior Managers Large Retailers), before the vote, both expressed concern with regards to the number of trade negotiators and the fact that two years is too short to put in place the trade policy after the UK leaves the EU. This highlights that businesses foresaw this problem before the vote and had concerns as to how the UK government was going to address the issue if the vote was "no". Interviewees also observed the issue of putting in place UK customs' law as well as dealing with putting the infrastructure in place for businesses to be able to process their customs documentation. Just with this aspect the businesses are concerned as to the length of time that this will take compared to that allocated by Government.

When the interviews took place it was uncertain as to what sort of trade relationship the UK was to have with the EU after Brexit. A number of interviewees identified the different routes the UK Government could take. However, the interview that took place on the 10th June 2016, Company C, Director, UK Consultant, just before the vote, with a leading consultant in this area discussed the forthcoming vote and considered the scenario if the vote was "no" and the resulting relationship between the UK and the EU. The kind of partnerships that were discussed:-

"If the UK has a partnership with the EU, in the form of EFTA, then the UK would be paying as much money into the EU as it currently is but will have less benefit. This would be a similar relationship as Norway/EU."

"Does the UK become an associate member allowing membership of the customs union? This would be similar to Turkey, who are being told what to do by the EU and are suffering from preference, as the associate trade agreement is based on free circulation.

Therefore, countries who have signed trade agreements with the EU are selling into the EU, and paying no duty and then moving these goods into Turkey on a ATR form; Turkey is not able to gain duty from these goods. Therefore; Turkey is missing a large amount of import taxation revenue from this.”

“Does the UK become an independent WTO member and become a Most Favoured Nation (MFN)?”

“If the UK becomes either an EFTA or an associate member it will still have to comply with all the EU regulation that we are currently trying to reduce by having the vote.

The discussion concluded that a clean break from the EU would be the best long term outcome for the UK.”

Another interview taking place on 8th March 2017, (Company G, Director, UK Association Retail Sector), nine months after the vote, provided the following views:-

“It is possible that the UK will seek to negotiate some form of transitional arrangement with EU, which effectively means that the UK would remain within the EU customs union. Mainly because it would mean that goods between the UK and the EU could continue to be traded free of customs duties, but more significantly, free of customs procedures as well. There is a big turn at the moment that the current Customs infrastructure in the UK is simply not going to be able to handle the amount of trade if all the trade between the EU and the UK has to pass through customs barriers. So the way around that is by coming up with a devise that means we are still in the customs union so we do not have to face any of those problems as we leave the customs union.”

“However, one of the implications of being a member of the customs union is that the UK will have to follow slavishly the existing EU common external tariff. Let us assume that when the UK leaves the EU it will no longer be part of the part of the customs union and the implication of that is the UK is suddenly a sovereign power in the area of trade policy and the UK can do its own thing.”

An interview that took place on 10th July 2017, Company I, Director, Multinational Manufacturer, over 12 months after the vote to leave took place, had the following view:-

“There needs to be a clear message as to which direction government is going to take as, at the moment, no deal is better than any deal is currently stopping businesses from planning their trade.”

On the 5th February 2018, the UK stated to the EU that it does not want to be part of the Customs Union.

The UK Government has been very clear that they will not start negotiating trade agreements with the EU until the trade relationship has been established. The EU has made it clear to the UK that they cannot start officially negotiating and entering into free trade agreements with Non-EU countries until after March 2019. (BBC, 2018).

Since these interviews a transition period has negotiated between the UK and the EU of a 21 month period after March 2018. The intention by Theresa May is to provide the UK with an implementation phase to allow UK business to integrate the new arrangements. The House of Lords (2017), stated that if a transitional period is agreed it would be vital for the UK Government to negotiated access to the EU's preferential trade arrangements with third countries. Thus there is currently potential for the UK Government to be able to implement the House of Lords recommendation.

## **6.10 Uncertainty within UK business with regards to Brexit**

It is interesting that all of the interviewees, (see in figure 6.2 page 193), had concerns with the level of uncertainty of trade policy before the vote, immediately after the vote and a year later. This highlights that there is an issue for businesses being unable to plan ahead and to have contingency plans in place to obtain the best trade route with regards to import tariffs. The interviews that took place before the vote showed interviewees, were uncertain as to how the vote would go. At this time the UK government was confident that the referendum result would be to stay with the EU. However, all the pre-referendum interviewees felt the vote was risky and could go either way. At the time they were concerned that the UK government was not providing in depth information with regards to trade in relation to the EU and also trade with Non-EU countries in respect of free trade agreements. After the 23 June 2016, the interviewees all stated that uncertainty is a major concern:-

## Interview dates

- 7th June 2016, Company A, Senior Manager Large Retailer.

“There appears to be a lack of knowledge as to what will happen to UK business for the first few transitional years if the UK came out.”

- 9th June 2016, Company B, Senior Manager Large Retailer.

“The approach at the moment to wait for the outcome of the vote on 23rd June 2016 and then deal with the consequences.”

- 10th June 2016, Company C, Director, UK Consultant.

“Currently no one really knows what is going to happen on 23rd June 2016.”

- 28th June 2016, Company D, Senior Manager, UK Medium/Large Manufacturer.

“At the moment business is unable to react to the vote as it is still uncertain, due to the current issues at [Westminster].”

- 3rd March 2017, Company E, Director, UK Association Manufacturing sector.

“It is uncertain as to how the UK is going to leave the EU.”

- 3rd March 2017, Company F, Director, Multinational Pharmaceutical Manufacturer.

“I am quite confident that upon leaving the EU, [that] the UK would remain within the EU customs union.(UK are not wanting to be in the Customs Union, 5th February 2018).”

- 8th March 2017, Company G, Director, UK Association Retail Sector.

“It is very interesting at the moment; there are ups and down sides to leaving the EU.”

- 6th June 2017, Company H, Director, UK Consultant.

“There are so many questions which are unanswered.”

- 10th July 2017, Company I, Director, Multinational Manufacturer.  
“I am unsure how the UK is going to be ready for trade from day one after the UK leaves.”

In July 2017 the Institute of Directors voiced concern that businesses are considering contingency plans in relation to setting subsidiaries within other EU countries and are postponing any large UK investment projects due to the uncertainty of Brexit; with an estimated of 11 percent acting already according to a recent survey carried out by the Institute. Wallace (2017). This theme has continued throughout 2017, in November 2017 the following was reported:- “Due to the uncertainty, the Confederation of British Industry has predicted that 60% of its members are already putting contingency plans in place if the uncertainty continues until March 2019.” The Confederation also stated that 10% of firms are already moving parts of their business to other countries to protect their supply chains. This will help to mitigate the prospect of the UK being subject to tariffs or border controls. Inman (2017). However, this is not just within the business community, there are similar views within the financial sector; UBS surveyed senior figures in 1,200 major corporations across the Eurozone, which showed just under half will relocate British staff out of the UK into the Eurozone. Martin (2017).

## **6.11 Other Issues**

Other interesting points that the interviewees raised:-

10th June 2016, Company C, Director, UK Consultant

“There needs to be consideration of the manufacturing that is no longer in place in the UK but has been transferred to other countries, which currently the UK has a trade

agreement with or have GSP. So if the UK comes out then access to these markets will be a concern and, therefore, could be a need to bring back manufacturing from Asia to the UK.”

This is an issue that has been highlighted by the House of Lords (2017), as they suggested that replacing EU imports with UK products could be an issue.

10th July 2017, Company I, Director, Multinational Manufacturer.

The interviewee was quite concerned that the UK politicians have not really understood the issues when dealing with a global supply chain. “They have not stated what the main priorities are and there is a lack of experience of industry or commercial experience within the political hierarchy and therefore the practicalities of business are not being fully appreciated or addressed.”

## **6.12 Europe’s Position on Brexit**

If the UK was to stay in the EU custom union the UK would maintain tariff-free trade within the EU, however, the disadvantage is that the UK will not be able to have trade agreements with other countries and will be tied to the EU. BBC News (2018).

The UK Government has announced that they wish not to use the EU customs union after the UK leaves Europe. BBC News (2018), 5th February 2018. In response Michel Barnier, the EU’s chief negotiator, stated that if this was to happen the UK will have barriers to trade with the single market, if it is not in the Customs Union. He has asked the UK Government for clarity as to what sort of partnership is wanted with the EU after it leaves; as at 5th February 2018 he is waiting for an official position to be put forward by the UK Government. He stated that it is time for the UK to make a choice.

Within a speech that Michel Barnier gave on 9th January 2018 to the Trends Manager of the Year 2017 event, he raised three points that he considers are the main aspects of the Brexit :

1. "Will the UK have an orderly withdrawal or a disorderly withdrawal from the EU?"

This has now been answered as on the 8th December 2017 the EU members have been in agreement with the UK towards an orderly withdrawal.

Within this agreement the following is considered:-

- 1) Citizens' rights.
- 2) Ireland's border.
- 3) Financial settlement of commitments that have been undertaken by the 28 to be honoured by the 28.

Due to this being agreed the European Council has agreed that sufficient progress has been made to allow discussions on a possible transition period.

2. To establish the relationship that the UK wants with the European Union?

To this we, as yet, have no answer to this question.

However, in relation to trade, the UK Government has made it clear it wants independence to negotiate international agreements and to be able to do this it has confirmed that the UK intends to leave the Customs Union.

For trade with the EU it would be possible for a FTA, which would obviate the trade barriers with regards to customs duties and allow smoother customs procedures.

The UK has requested a transition period and the commission has proposed to its remaining 27 member states a 21 month period from the date of the UK withdrawal, 29th March 2019 to 31st December 2020.

The European Commission are currently waiting for the UK to confirm that we are working towards an ambitious FTA and which other areas the UK would like the EU to co-operate with.



All businesses should analyse their exposure to the UK and be able to adapt their logistical channels, supply chains and contractual clauses, including the financial services sector.

3. Will the UK wish to stay close to the European regulatory model or decide to move away from it?

The European regulatory framework has incorporated key aspects, social market economy, health protection, food security and effective financial regulation. Common ground is met within the European member states: fair competition, state aid, guarantees against tax dumping and social and environmental standards.

This is an important decision because the European regulatory framework is underpinned by key societal choices that are dear to us: our social market economy, health protection, food security, and fair and effective financial regulation.

As the UK will want to enter into mixed agreements the regulatory framework will need to be considered and the European Parliament will want ratification by the 27 national parliaments along with regional parliaments.”

### **6.13 GSP in relation to UK Trade Policy**

The GSP is a non-reciprocal preferential trade agreement which can be arranged within a short period of time. House of Lords (2017). It could be used on a temporary basis to bridge the period from when the UK leaves the EU to the arrangement of FTAs. The UK government is unable to start negotiating trade agreements until it leaves the EU in March 2019. Free trade agreements are reciprocal and will take a longer period to arrange. Brenda dos Santos et al (2005). UK government also has the opportunity to make the GSP scheme more accessible to UK importers. By making the application of GSP simpler, along with expanding the GSP recipient countries to include common wealth members, who were part of the original UK GSP scheme before the UK entered the EEC. This will allow the UK to develop the policy of GSP to reduce poverty through trade. Cooper (1972).

## 6.14 Conclusion

Brexit has provided an interesting angle to the research undertaken as it has direct impact on the Generalised System of Preferences and how it will be used within UK trade policy in the foreseeable future. Unfortunately, due to the complexity of the UK leaving the EU and no clear trade policy being announced by the UK government, the trade policy the UK is to have with the EU and non EU countries after March 2019 is still uncertain. The UK could incorporate the GSP as a temporary solution as it can be utilized outside GATT and allow preferential trade to continue until the Free Trade Agreement has been negotiated and gone through legal ratification.

The UK government is currently showing an intention of continuing to use the GSP when the UK leaves the EU; allowing an opportunity to improve the way the GSP is used at an operational level. One of the main issues that has been raised though the previous chapters is the way the rules of origin have been implemented. This has been highlighted as a complex rule and in some cases identified as an issue for goods not using the preference and importers paying full duty rates. If this could be simplified there is an argument that the LDCs would be able to utilize the GSP and be able to gain more access to the UK market. This would also help to show the LDCs that the UK is wanting to continue to support them. There is an opportunity for the UK government to make the GSP more accessible for UK importers by providing more education to smaller and medium companies on how to approach the application of the GSP. Therefore allowing them access to a reduction of import tariffs and a consequential positive result on their cash flow.

Stevens & Kennan (2016), further suggested that the UK would create its own MFN regime that would be very liberal and therefore makes the special preferences for LDCs obsolete. This could extend to services as well as goods. However, they argue that for this to happen would be an enormous task and thus this option is less attractive. This is looking at the long term but, in the short term, using preferences would allow trade to continue when the UK leaves the EU.

At the time of writing the UK government has informed the EU that it wishes to leave the EU customs union, in order for the UK to develop its own trade agreements. Europe's initial response is that the UK will have barriers to trade as a consequence. However,

Europe has asked for the UK to clarify the partnership the UK wants to have with the EU once it leaves. Until this has happened the EU is unable to negotiate the details of the trade agreement. UK businesses within the interviews have stated that the uncertainty is frustrating future planning and it appears that Europe is also waiting for the UK to declare fully as to how it will leave the EU. Until then, the UK importers will be uncertain how to plan ahead and, for those who have a global supply chain, it will be difficult to enable a clear planning strategy due to the impact on both the EU trade and the Non EU trade. GSP could be the way forward due to the ease with which it could be incorporated compared to the FTA. The previous chapters have shown the issues that UK importers have had with regards to utilizing GSP throughout its forty seven years. With the focus being on trade agreements due to Brexit there is an opportunity for the preference to be redeveloped; allowing greater utilization by UK importers and increasing trade access for developing and lesser developed countries. The subsequent chapter will review the findings with regards to the historical and current issues identified within the previous chapters; consideration to the Brexit issue will be incorporated within the forthcoming conclusions.

## **Chapter 7 Interpretation of the Evidence**

### **7.1 Introduction**

The historical research undertaken was developed mainly from the exporters (LDCs) view point. It provides analysis of the issues over the years of application of GSP which have reduced the utilization of the GSP. The interview research has provided data for the time period June 2016 to July 2017. It should be noted that the UK had a referendum on 23rd June 2016 resulting in a decision to leave the EU which has become known as Brexit; data in relation to the effects of Brexit with regards to the interviewees was also considered. The primary interview data will be used to triangulate the secondary data findings within the historical research.

Within the chapter the interpretation of evidence will include the following data:-

The reoccurring issues highlighted within the historical data have been modelled into six themes which have been used to establish any correlation to the research undertaken within the semi-structured interviews of UK importers. The interview data has been matched to these themes and numerical analysis has been used to provide quantitative findings of the combined results. These results are averaged to investigate which themes are shown to be of most importance within the interview data.

The data provided when comparing GSP, MFN and total eligible trade in section 4.4 is considered and the academic argument shown within the historical data that there is an increased use of MFNs which is reducing the usage of GSP, Nilsson and Matsson (2009), Weston et al (1980, Townsend (2008) and Seyoum (2005). The analysis of this data has questioned this argument. See 7.3. However, the data collected from the interviews, in relation to the use of Free Trade Agreements, agrees with the academics' perspective.

The GSP utilization in relation to 2013 and 2014 (see figure 4.5 page 105) and GSP utilization for 1976, 1996 and 2014 (see figure 4.7 page 107) is reviewed and shows an overall increase of 41 percent between 1976 and 2014. However, whilst 2014 shows a utilization of 75 percent, the interview data highlights that, due to the cost of application,

a number of imports have full duty paid. In 2014/2015 GSP was being removed and FTA/MFN was not being established to replace the GSP on a timely basis. The GSP utilization is less affected. See section 7.2.2 page 216. Therefore, there is an argument that more could be done to increase utilization further.

Consideration has also been made in relation to the UK leaving the EU (Brexit). Interview data was collected to reflect interviewees' view point with regards to the impact that Brexit may have. If the UK was to develop its own GSP trade policy the historical data can be used to highlight the issues in relation to the application of the EU GSP. The UK GSP could consider improvements to these issues when it is being developed.

The interview data is further analysed with regards to the overall application issues the interviewees have with GSP. Data was collected with regards to the Brexit situation and the transcripts have been analysed to see what impact it is having on the interviewees and thus UK trade policy.

## **7.2 Analysing the utilization issues**

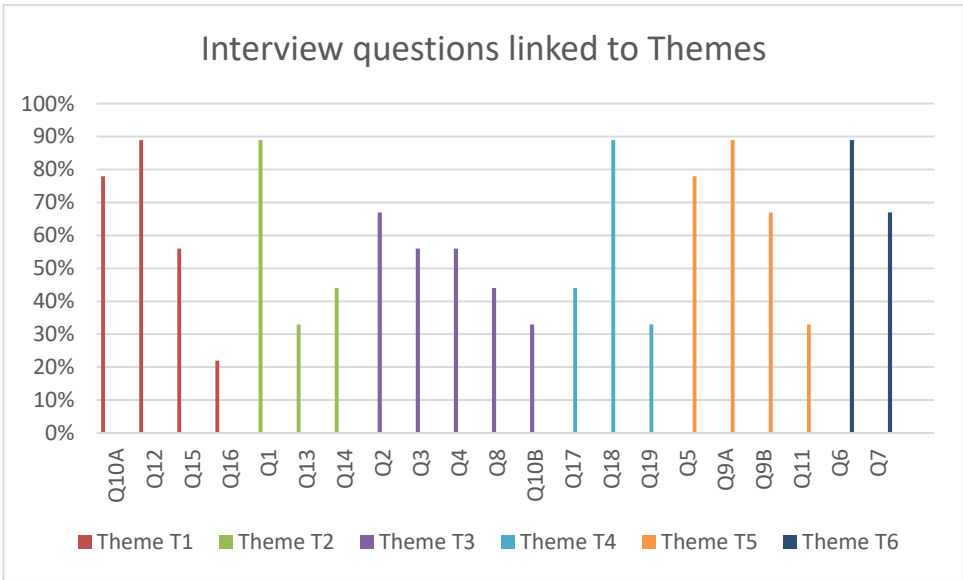
Upon reviewing the chapters it became apparent that there were common issues shown. Within the historical chapter there emerged six clear themes relating to the reasoning for the underutilization of GSP over its forty six year application. These issues were repeatedly raised and these were:-

<b>Theme</b>	<b>Details</b>
T1	Uncertainty of politics.
T2	Lack of awareness.
T3	Understanding of technicalities.
T4	Erosion in preferences.
T5	Cost of application.
T6	Complexity of the RoO.

These themes relate to those countries exporting into the EU and their issues as most of the academic research is approached from this angle. Using the themes developed

from the historical data the questions and subject areas from the interviewee's transcripts were reviewed and data allocated to the six themes. These are shown within figure 7.1 below.

**Figure 7.1 Interview questions grouped within the six themes.**



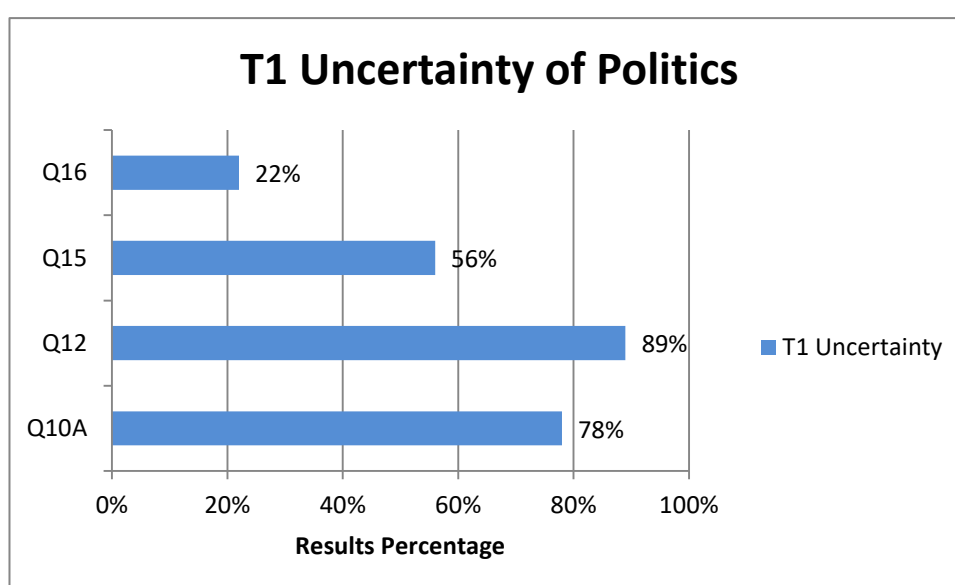
The results show the responses within the interview data via sub questions that are linked directly to the six themes formed from within the historical research. When reviewing figure 7.1 above, T3 (understanding of technicalities) have provided the weakest results while all the other themes have a question that scores 89 percent, (all except one of the interviewees). However, all six themes developed within the historical data have had a positive outcome with the interview data with an average of over 50 percent within each theme. The interview data is therefore able to triangulate and support the findings within the historical data.

The six themes and the responses to the questions used within the interviews are analysed below combined with data from the historical research. This shows the correlation of the issues between the academic historical data from 1971 – 2017, with data from UK importers June 2016 – July 2017.

### 7.2.1. (T1) Uncertainty of Politics within GSP Trade Policy

The trade policies relating to the GSP scheme are reviewed within the European Council in Brussels. As the GSP scheme is non-reciprocal the European Council can apply its own policy with regards to the application of the GSP scheme. This can generate a level of uncertainty. Due to policies directly affecting the different product lines, this can have an impact on UK business and the level of academic interest in how GSP trade policy changes affect the level of trade. It thus provides a strong theme for investigation in relation to importers and exporters. Figure 7.2 below shows the results of the interview questions allocated to the uncertainty theme of politics. The implication of the findings between the historical and interview data is analysed in 7.2.2.

**Figure 7.2 Uncertainty of Politics in relation to interview data**



#### **T1 Uncertainty of Politics: Interview questions**

Q16 Is there an issue with the removal of different layers of GSP, i.e. GSP+?

Q15 Is graduation an issue?

Q12 Do you feel remote from the EU GSP process?

Q10a Is GSP treated as a bonus?

### **7.2.2. (T1) Uncertainty of Politics within GSP Trade Policy - implications of the findings**

When reviewing the findings there are some surprising results in relation to the different themes analysed. The issue of the political base to which GSP is subject, has had a direct impact on how the importers relate to the GSP within their business as a whole; all except one of the interviewees stated that they feel remote from the EU GSP process. This leads to the generation of uncertainty amongst importers as to how the GSP will be applied within Europe. For example, will the GSP be graduated due to the EU protecting its domestic markets? Weston et al (1980). Another example is due to a humanity issue; Sri Lanka had its GSP+ reduced to GSP. Will the EU take the GSP away while promising an improved FTA approach and leaving the developing country without GSP while it is still negotiating the FTA. Consequentiality there is a time lag of a number of years during which no preference is available. This is a current issue for Thailand, supporting the issue highlighted by UNCTAD (1999), within the historical data, that the exporters of LDCs and developing countries have low utilization of GSP due to protracted uncertainties. The UNCTAD (1999) highlighted the importance of stability and predictability of trade preferences, allowing the preference to be more effective with traders.

In relation to the political aspect 78 percent of importers felt that they were unable to include the GSP within their day to day financial decision planning activity. This is an implication of the feeling of remoteness from the political process which makes the planning, within the supply chain, for preference trade difficult and uncertain. The interview responses treated the cost reduction of import duty as a bonus rather than incorporating the GSP reductions within their main business plan. The follow reasons were given for this action:-

- Uncertainty as to the continuation of GSP on the product lines used by the importer.
- Being remote from the decision process and therefore no control over graduation.
- Countries could become unstable and GSP removed due to humanitarian reasons.



It suggests that the majority of importers are not confident in the GSP scheme and do not rely on its benefits to add value to their business model. Hoekman, et al (2009), suggested that the GSP scheme is regularly revised and a country could be graduated without any prior warning or pre-indication, a fact which enhances the unpredictability of the preference system. Bureau, Chakir, & Gallezot (2006a). This uncertainty will enforce the reasoning for businesses to treat the GSP as a bonus.

Graduation had a higher result; with 56 percent of the importers having an issue with the application of the graduation policy and the fact that the policy can be changed quite quickly, making business planning an issue. It has been an issue from the beginning of the GSP, Iqbal and Allen (1975), Weston et al (1980) and Breda dos Santos et al (2005) acknowledged that graduation is used as a policy to protect domestic markets. UNCTAD (1999) noted that within the 1990s graduation was shown as a reason for the fall of product coverage from 73.5 percent in 1994 to 66.9 percent in 1997. The graduation and the removal of the different layers of the GSP are also linked to the political uncertainty and, again, the lack of inclusion of importers when these decisions are taking place becomes relevant within the remoteness aspect of the GSP process. Özden and Reihardt (2005) highlighted, within the literature review, the issue that GSP does not have a legal binding system within the GATT policy as it lies outside GATT and is a non-reciprocal trade preference. This allows the political system to instigate changes to policy while meeting WTO rules.

When looking at the above question results regarding the political influences on GSP, it is interesting to note that while currently there has been an issue of removal of the different layers of GSP there is not a direct concern with only 22 percent stating that this has ever been an issue. There are many factors as to why this result was so low:-

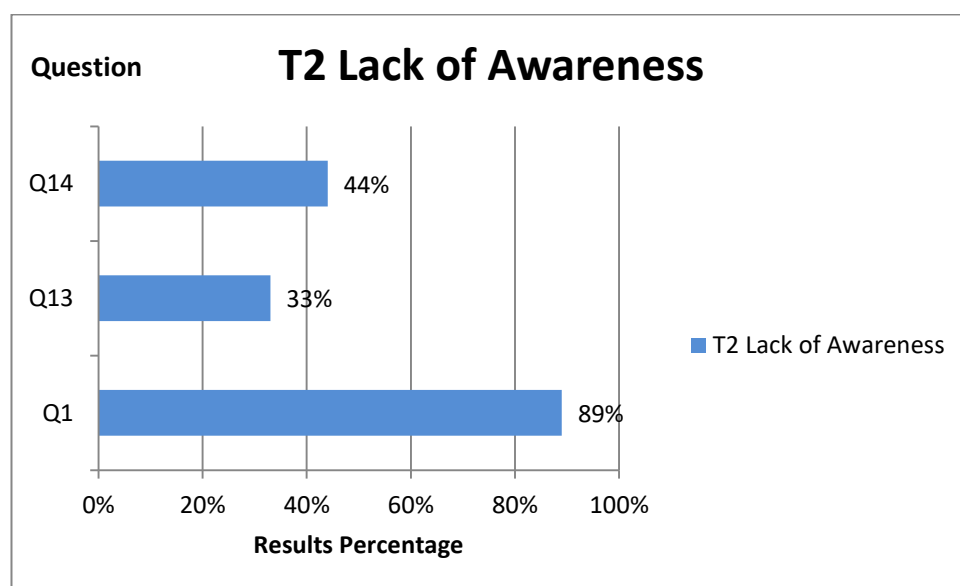
- This may be due to the countries with which the interviewees trade.
- The countries concerned are switching to another preference i.e. MFN.

It was interesting that Q10B Is GSP included in the main plan? Shown in figure 7.3 page 217, stating the opposite of this question. 33 percent of businesses did not treat the GSP as a bonus and were confident to be able to allocate the cost saving benefits within their main business plan.

### 7.2.3. (T2) Lack of Awareness

The research through historical data and the interviewee, responses shown in figure 7.3 page 217. The overall awareness of the ethical dimensions, production of the correct documentation by the exporters and the smaller/medium company's knowledge of GSP is considered within this theme. The implication of the findings in relation to the historical and interview data is considered within 7.2.4.

**Figure 7.3 Lack of Awareness in relation to interview data**



#### **T2 Lack of Awareness: Interview questions**

Q14 Is there an issue with the use of the ethical approach when providing GSP?

Q13 Is corruption an issue in relation to the suppliers from LDCs?

Q1 Do you think smaller/medium companies have a knowledge barrier with regards to how to apply for preference?

## **7.2.4 (T2) Lack of Awareness - implication of the findings**

The questions asked within the interviews of importers were allocated to this theme cover a wider breath of issues as the lack of awareness can relate to a number of issues and therefore, this has been reflected within the questions.

Of the nine interviewees, two consultancies serve small, medium, large and multinational companies. When importing goods often a company will contact the consultant for help with trading issues and how do they begin to import from outside the EU. The two association interviewees have members again from small, medium, large and multinational. They run regional forums to allow all sizes of business to take part in the policy approach of the association, to which the association will then take forward the main issues to the policy makers of government, within governmental forums. One interviewee was a medium sized company who is using GSP within their business and they attend the regional trade forum which provides information on how to use GSP and also they can express any difficulties they are finding. The two retail interviewees related to their association and that they interacted with the association's forums where a mix of business sizes would be present. The two large manufacturers had experience of the smaller/medium size companies within their supply chain and the application of GSP directly affected the supply of goods. Therefore it was appropriate to ask the interviewees to comment on smaller/medium sized companies with regards to their approach to the application of GSP.

The smaller and medium size companies are overlooked by many academics when investigating the effects of preference; this is due to the difficulty of collecting reliable data. However, with smaller and medium size companies making up ninety-nine per cent of companies in Europe. European Commission (2001), there is an argument that more research should be undertaken within this area. Interviewees were asked if smaller/medium size companies know about preference benefits and how to reclaim duty paid on which trade in goods and services to which zero duty is applicable due to GSP, and the consequential benefits this would have on cash flow. All except one of the interviewees stated that smaller/medium companies will have a knowledge barrier when it comes to the application of preference. Many responses stated that more could be done in this area by the EU as SMEs are cash flow sensitive and would benefit from not paying the duty. The smaller/medium organisations are not able to afford the

staffing costs or risk penalties for incorrect documentation and even those that have some knowledge of the preference system choose to pay the full duty.

Some of the reasons given for the knowledge barrier were:-

- Smaller/medium companies not aware of the availability of GSP.
- It is costly to maintain the knowledge.
- The cost of having a member of staff to be committed to the application of GSP.
- The risk and cost of any applied penalties for incorrect use of system, preferring to take the cost and budget.

The issue of knowledge of the GSP scheme has been a concern within academia which the first few years, showed that there was an issue that importers and exporters were not aware of GSP. Iqbal and Allen (1975).

The ethical approach used by companies when using GSP as part of their supply chain is a consideration for 44 percent the sample. The GSP scheme is used to generate an economic progression of the lesser developed and developing economies. Interestingly, when GSP+ was removed from Sri Lanka and normal GSP applied a number of the importers interviewed acknowledged that this was done for humanitarian reasons and yet they continued to use them within their supply chain. This is due to the relationship they had formed and wanted, where possible, to continue to allow suppliers to develop further as this has an impact on their local economy. Importers had shown awareness as to how the policy of the removal was undertaken. However, this is a low response and a number of companies interviewed were unaware of the reasons for removing the preference, but were concerned with following profit rather than maintaining supply. In contrast, some importers find this difficult and move to another GSP country to ensure costs are kept low. Townsend (2008) commented that GSP+ have been withdrawn due to humanitarian issues and could have an impact on utilization of preference.

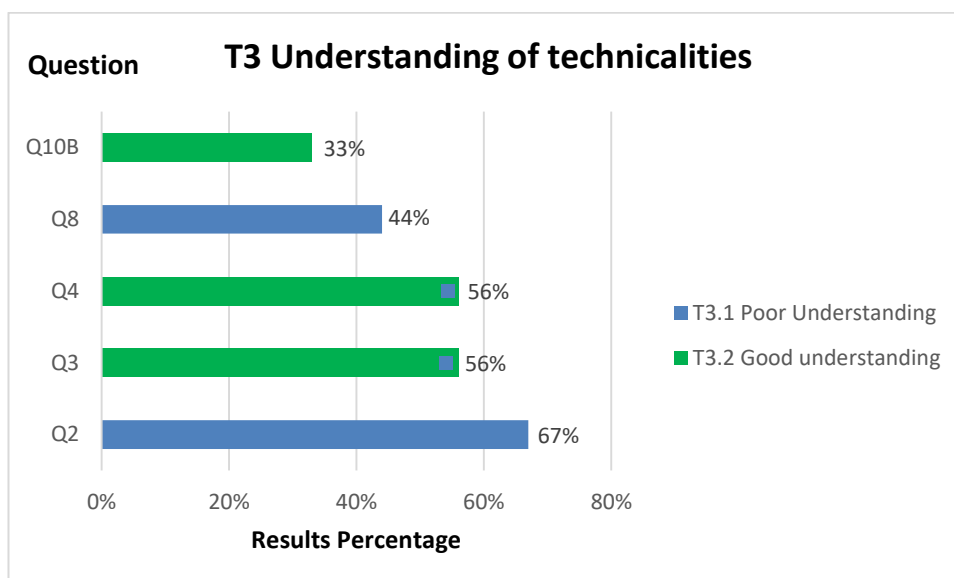
Only 33 percent of the importers considered corruption as an issue when suppliers are providing country of origin documentation. The reasoning for this is that suppliers want to export to the EU and think that by providing any documentation correct or otherwise

they will show that they are providing a good service to the EU importer who will consequentially continue to have them as their supplier. Unfortunately, photocopies of GSP Certificate A are being used to export to the EU. The HM Customs at point of import will test the GSP A certificate through a machine to see if they are originals and, if not, then full duty is charged to the importer. These suppliers are often unaware of the issues caused when providing copies of documents to the importer. Langhammer (1983) highlighted that documentation provided by exporters have been fraudulent as they want to exploit the EU market. An example of this is occurring is when suppliers are unaware that providing copy documentation or bribing the officials to stamp the documents is incorrect and the implication that the importer will pay full duty on importation into the EU. Buyong, C., and Kireeva, I (2008), found that customs official at African borders are not adopting ethical behaviour at national level and counterfeiting is the norm.

### **7.2.5. (T3) Understanding of technicalities**

Understanding the technicalities is researched in the historical and interview data to establish the level of education undertaken to enable exporters and importers to apply the GSP effectively. The grouping of questions within this theme reflected if importers considered the GSP in their main business plan; whether they followed the progress of trade law on Europa web site and if they actively sort knowledge on the progress of the EU trade agreements. Education and level of documentation in relation to suppliers was also considered to see if this was influencing the utilization of GSP. The results of these questions are shown within figure 7.4 page 221. A graphical interpretation of the interview data and the historical data in regards to this theme is shown in section 7.2.6. The results are shown in two aspects: poor understanding and good understanding to highlight that although the questions are answered the level of understanding of the issue was poor or good.

**Figure 7.4 Understanding of technicalities in relation to interview data**



### **T3 Understanding of technicalities: Interview questions**

Q10B Is GSP included in the main plan?

Q8 Is the level of documentation for suppliers an issue causing under-utilization?

Q4 Do you follow the Trade Agreements?

Q3 Do you use Europa as a source of knowledge?

Q2 Is there an issue in relation to education of suppliers?

### **7.2.6. (T3) Understanding of technicalities - implication of the findings**

There were two elements to consider when reviewing the allocation of these questions in relation to the theme of understanding technicalities.

- Good understanding (responses shown in green).
- Poor understanding (responses shown in blue).

When the question of including the GSP benefits within the main plan of the business the chart shows that 33 percent of the importers are confident in their understanding of the technicalities and that the GSP benefits were included within the main business plan. It allows businesses to be more proactive in developing their global supply chain this is opposite stance to the question of treating GSP as a bonus which had a high result of 78 percent as shown in figure 7.1 page 213.

The question of the level of documentation for suppliers being an issue is showing as 44 percent. The importers stated that often suppliers do not understand the technicalities of the documentation required and therefore are not able to relate to the fact that if it is not completed correctly it will be the EU importer that will have to pay the duty. The regulation regarding the country of origin (RoO) percentage is often misunderstood by suppliers and, at times, they supply a country of origin certificate when they do not qualify. The origin percentage relates to the amount of change the goods have undertaken within a country. If the change is over 60% of cost value, the country of origin can be to this country. Therefore if the EU investigate an EU importer's supply chain and find that the evidence of RoO is lacking they will penalise the EU importer for non-compliance. For example, chapter 86 of the commodity coding details the following "Manufacture in which the value of all the materials used does not exceed 70% of the ex-works price of the product. Remember: the term 'material' means any other non-originating material unless otherwise indicated". H.M. Revenue and Customs (2017). This is shown as a negative result and poor understanding to technicalities within the analysis of the results.

The issues of following trade agreements and using Europa as a source of knowledge are linked. Europa is a European Union website providing updates on trade talks and free trade agreements; amendments to GSPs; what changes will be made with regards to product graduation; and GSP withdrawal. Therefore, the 56 percent of importers that actively spend time following the Trade Agreements are using Europa to do this. It promotes the fact that importers have to allocate time to enable the following of the relevant Trade Agreements, and that these 56 percent of importers are actively understanding the technicalities. However, the interviewees considered that smaller and medium size companies will have an issue with keeping up to date with the legal knowledge. Interestingly, the academic literature argued that there is a lack of knowledge among importers with regards to the existence of GSP and the value that it

could produce which, in effect, could provide a cash injection back into the importers business. Inama, 2003, in particular, highlighted the issue of under-utilization due to importers not having the knowledge to be able to access the preference. Therefore the findings support the academic data.

The issue of the education of suppliers concerns 67 percent of the importers interviewed. This can be linked into the level of documentation available and how easily it can be accessed by suppliers. Importers provided in-house training to suppliers so they can provide the correct documentation when exporting to ensure that on importation the preference can be claimed correctly. Importers feel that this is worthwhile as it provides prevention of penalties and allows a smooth importation through EU customs. It also provides confidence to the importer that when UK Revenue and Customs inspect the importers' documentation the documentation should be correct and not be subjected to penalties. However, there is still an issue with regards to suppliers providing the correct documentation at the point of import. Therefore, this leads to underutilization of qualifying products using the preference. There are a number of aspects which should be considered with regards to understanding the technicalities. The academic literature disclosed that the LCDs require more technical knowledge and investment in the administration to be able to develop exports that use preferences. (Bureau, Chakir, & Gallezot, 2006a). In response to the issue of awareness the UNCTAD has launched a GSP website to provide information in relation to the preference to help LDC exporters be aware of the issues when applying GSP. However, Langhammer (1983), argued that the exporters have a naïve approach to the administration documentation required to qualify for preference. The UNCTAD (1999), highlighted that exporters struggled with the application of the technicalities of the preferences and they recommended that more technical education was essential for exporters to be able to utilize GSP more and get the benefits from it for which the system was designed.

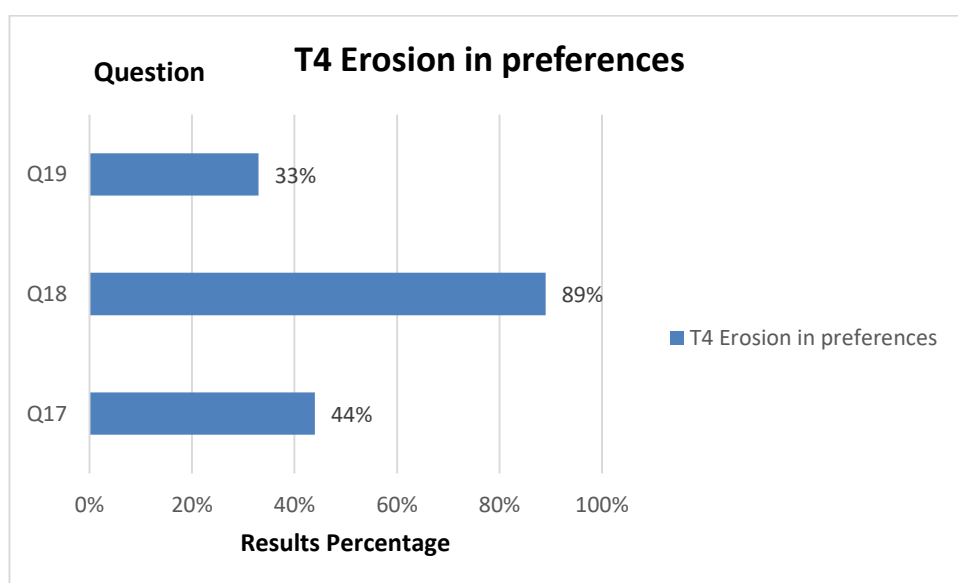
The technical requirements were a concern raised within the historical data with Djankov, et. al. (2006), expressing that the technical requirements required by the donor countries have an impact on the use of preferences. Weston et al (1980) suggested that as the EU becomes larger the administration will become more complex.



### 7.2.7. (T4) Erosion in preferences

Erosion of preferences is highlighted a number of times within the historical data, in particular, the effect of MFNs in relation to the application of GSP. This is looked at in more detail within section 7.3. In figure 7.5 below the results from FTA documentation, being similar to GSP documentation, move from GSP to FTA and graduation of GSP being replaced by FTAs. The implementation of these results are shown within 7.2.8.

**Figure 7.5 Erosion in preferences in relation to interview data**



#### **T4 erosion in preferences: Interview questions**

Q19 Is Free Trade Agreements customs documentation is similar to GSP?

Q18 Is there a movement from GSP to Free Trade Agreements?

Q17 Has graduation been replaced by another trade agreement?

#### **7.2.8. (T4) Erosion in preferences - implication of the findings**

Only 33 percent of importers interviewed felt that the FTA customs documentation is straight forward and is similar to the GSP.

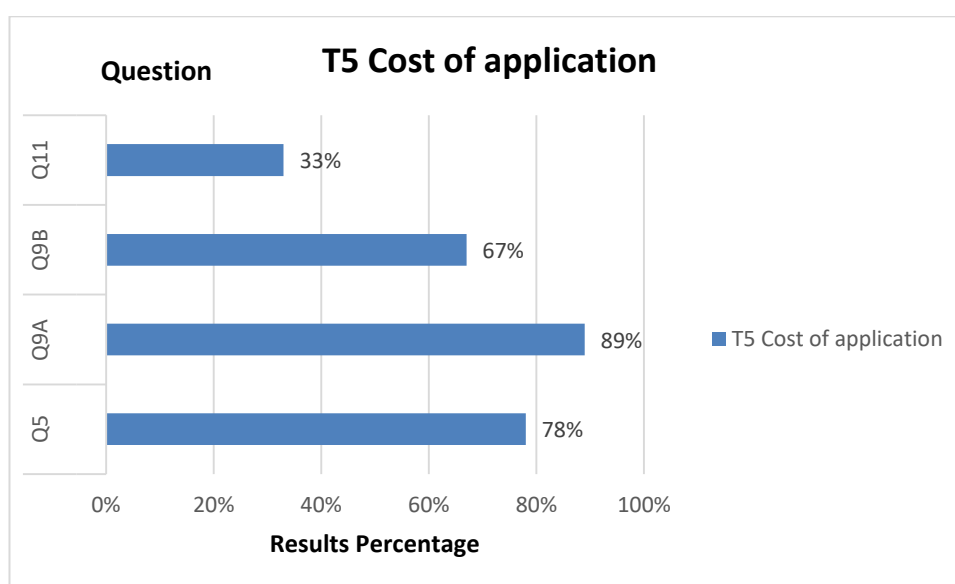
However, all except one of the interviewees felt that the EU is moving from the GSP to FTAs. Therefore, importers feel that there is erosion of preferences towards the free trade agreements, for example Most Favoured Nations (MFN)s. From the first implementation of GSP there has been concern from academics that the use of GSP would be limited due to the availability of MFN trade agreements. Weston et al (1980), Iqbal and Allen (1975), Yamazaki (1996) and Grether and Olarreaga (1998), suggested that the exporters may use MFN due to the complex compliance needed for GSP. Moving on to 2000-2017 the preference is being eroded due to the cost of application. McQueen (2007). The interview data supports the academics' finding that GSP is being replaced by MFNs/FTAs.

Of those interviewed result of 44 percent agreed that after the EU have graduated out a GSP country the preference will be replaced by a FTA but, importers raised the issue that the EU will graduate a country out of GSP and promise to replace the preference with a FTA, however, the FTA is not put in place immediately as these take years to agree and can take a further two to three years to go through legal scrubbing. In the meantime the country is unable to have any advantage on importation into the EU. This is the current situation with regards to Thailand whose GSP was cancelled in 2016 and, as yet, a FTA is to be put in place. These results are considered in more depth within section 7.3 with interpretation of the data of the MFN compared with that of the GSP.

#### **7.2.9. (T5) Cost of application**

The cost of applying the GSP results from many of its complicated aspects and the interview data considers measuring cost before quality, cost of HMRC penalties for incorrect documentation, employment of staff and the overall administration of GSP. These areas have been allocated under the theme of the cost of GSP application which is recognised within the historical research. The results are shown graphically figure 7.6 page 226. The overall implication of the findings are discussed within section 7.2.10.

**Figure 7.6 Cost of application in relation to interview data**



#### **T5 Cost of application: Interview questions**

Q11 Is cost a consideration above quality when applying GSP?

Q9B Is there an issue in relation to penalties for in correct application of GSP?

Q9A Is there a cost of employing staff to monitor GSP?

Q5 Is administration (cost of), in relation to the application of GSP an issue for importers?

#### **7.2.10. (T5) Cost of application – implication of the findings**

When asked if cost was considered to be of higher value than the quality of the goods 33 percent of interviewees stated that they put quality before the cost saving of the preference. The remaining 67 percent are concerned with the profitability and low costs before the quality of the goods. This issue was considered within the academic literature with exporters putting quality first is essential due to the international competition before the price of the goods. Collier & Venables (2007).

Of importers 67 percent are concerned with the issue of penalties issued by customs if the documentation is incorrect. The main issues importers can be summarised as:-

- Incorrect documentation.

- Lack of documentation.

- Visits to suppliers' premises and the fact that all importation documentation is required to be kept for four years and be available for inspection.
- Changes in application of HM Revenue and Customs due to the increase of phone investigations rather than visits to premises.
- Changes in attitude as HM Revenue and Customs will now issue the penalty first and then educate the importer afterwards.

The majority of importers, all except one, highlighted the cost of employing staff to specialise in the complex issue of importation and of keeping up to date with the legislation, as well as, applying the regulations and ensuring the importation documentation is correctly maintained. Alongside this cost is the cost of continuous training of staff to keep up with the technical changes to preference and various trade agreements. This aspect has not been found within the historical research due to it being a consideration for importers and not exporters. However, McQueen (2007) highlighted the underestimation of compliance costs.

When asked if the cost of the administration of GSP is an issue to importers, 78 percent stated that this is the case and, if to apply for the preference will take time and effort then, quite often, importers will just pay the full duty rather than have the time delay or risk of penalty. This would have a negative effect on the utilization percentages.

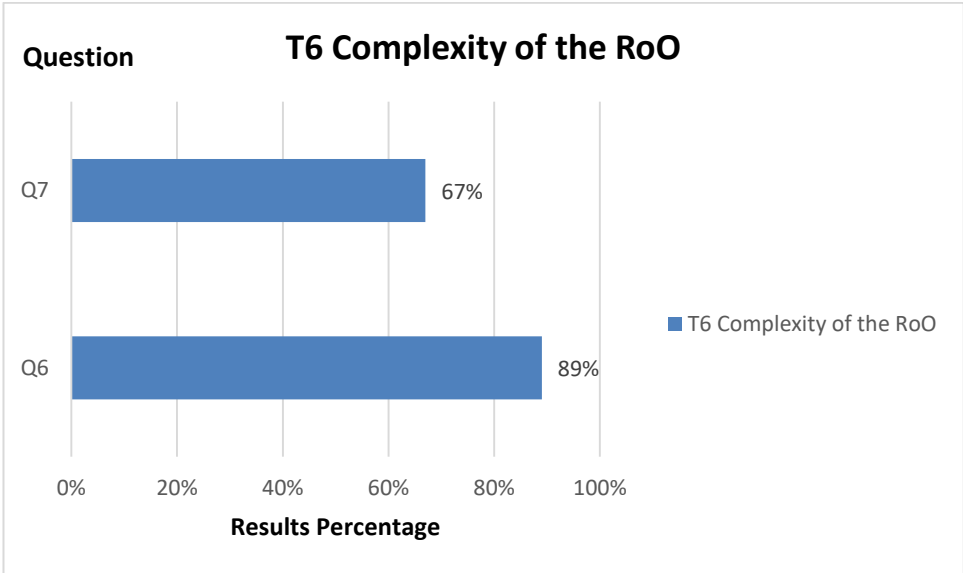
The cost of application of GSP is often commented on within the academic papers, but they lack importers' evidence on this issue. UNCTAD (2003), highlighted that it costs, on average, 3 percent to administer the preference, for each of the importer and exporter. Due to this cost UNCTAD (2003) reflected that LDC manufacturers and exporters may choose to export to the EU under MFN conditions as it is a less complex method than using preference. The cost element of preference application is something to which the

interviewees were very aware. The historical data has suggested that there is an administrative cost element and duty below 4 percent is often ignored for preference and full import duty is paid. Herin (1986). The UNCTAD (2003) reported the cost of the administration undertaken by the LDC exporters when utilizing GSP is 3 percent on average and Candau and Jean (2006) agreed with the threshold being 3 percent. The administration of RoO has been considered by a number of academics to exclude LDC exporting countries and provided this issue as an explanation for the underutilization of GSP. Hoekman et al (2009).

**7.2.11. (T6) Complexity of the RoO**

Throughout the history of GSP the issue of RoO has been considered. The interview data provides a very clear view that the level of GSP documentation and the country of origin (RoO) has an impact on the utilization of the GSP. Figure 7.7 below shows the results of the interviewees for the theme of RoO. The implication of the findings are discussed further and expanded on in section 7.2.12.

**Figure 7.7 Complexity of RoO in relation to interview data**



## **T6 Complexity of the RoO: Interview questions**

Q7 Is the level of documentation for the importer a cause for of issue under-utilization of GSP?

Q6 Do the country of origin rules (RoO) have an impact on utilization?

### **7.2.12. (T6) Complexity of the RoO – implication of the findings**

The theme in relation to the complexity of the rules of origin has provided a high response. The complexity of the documentation had a 67 percent response. A number of points were raised with regards to this issue for example:-

- Percentage rule.
- The supplier's declaration of the correct application of the rules of origin.
- The documentation has to be kept for four years.

A number of importers stated that if goods are at port without a rules of origin certificate then, rather than chase the supplier, they would just pay the full duty. The importer does have three years to make a retrospective claim, but often it is felt that it is not worth the extra work to apply. This issue is raised by the importers and is not found as an issue within academia due to the latter covering the exporter's documentation in the main.

All except one of importers stated, very clearly, that, yes, there is an issue with the application of the rules of origin and the difficulty that they have with suppliers not being able to fulfil this requirement and full duty having to be paid on importation.

An issue which has been acknowledged throughout the academic literature relates to to RoO and the complexity of its application. Langhammer (1983) suggested that the country of origin rules had been an issue for the first ten years of GSP. More recently the RoO has been investigated in a number of research papers and highlighted as a reason for trade preferences not being fully utilized. Hoekman et.al (2009). Inama (2003), Carrere et.al (2011), De Mel et. al (2011), Bureau, Chakir, & Gallezot (2006a) and Brenton (2003), to name but a few have all commented on how the RoO impacts on the versatility of the application of GSP. Brenton and Manchin (2003) commented

that the complexity of the rules of origin had an impact on the exporting LDC and limited their market access. Townsend (2008) further argued that the EU uses a strict application of the RoO and this can be used as a trade barrier.

### **7.2.13. Summary of interpretation of the six themed results**

The six theme results have shown that there is a direct link between the academic historical issues which the majority reviewed data from the exporter's view, over the whole period that GSP has been active and the UK importers interviewed from June 2016 to July 2017. The main issues highlighted have been:-

T1 (Uncertainty of politics), the historical data showed that due to the non-reciprocal aspect of the GSP trade policy it has allowed the donor, i.e. EU, to be able to change the GSP trade policy, at which, in turn provides uncertainty to its application on certain products and for the eligible GSP countries. The importers have stated very clearly that this has made them feel remote from the EU decision making process as it is a political process which does not consult business, and yet the impact of these changes directly affect business. The interview data thus supports the historical data and the argument that the politics in relation to the GSP makes it an uncertain preference.

T2 (Lack of awareness), the historical data provided argument for an issue with exporter's; from LDCs not being aware of GSP and therefore not applying for the preference. The interviewees confirmed that smaller and medium sized importing companies would have a knowledge barrier with regards to GSP, either with regards to how to apply GSP or simply not knowing it existed. The conclusion drawn from this that both importers and exporters have the similar issues with regards to a lack of knowledge.

T3 (Understanding technicalities). Historically, the data highlighted that there is an issue with LDCs not fully understanding the application of GSP and the documentation that is required for it. The importers agree with this statement as they highlighted that they had an issue with incorrect documentation coming from their suppliers. However, the importers provided training to their suppliers to ensure that the goods would qualify for GSP at the EU border and zero import tax would be paid. Due to this action by the

importer it is of less concern, but, the importers also commented that many suppliers do not conform to their requirements and full duty is paid on these goods. The result of 67 percent shows that it is a lesser concern to the importer than the other themes.

T4 (Erosion in preferences). Since the first implementation of GSP in 1971 the historical data has argued that GSP is a limited use preference which has a very complex application within the form of RoO and therefore MFNs could be applied if the LDC is eligible for both GSP and MFN. So, if the importation of goods is too difficult under GSP, then the goods are transferred to a MFN and shipped to the EU. The duty may not be zero but it would be reduced and allow the supply chain to be fulfilled. The interviewees confirmed that they felt the EU was reducing the number of GSP LDCs and were transferring to FTAs such as MFNs. However, there was concern amongst the interviewees that the EU is taking off the GSP before the FTA has been put in place and within the transition period full duty is paid. Therefore this theme is strongly supported by the importers.

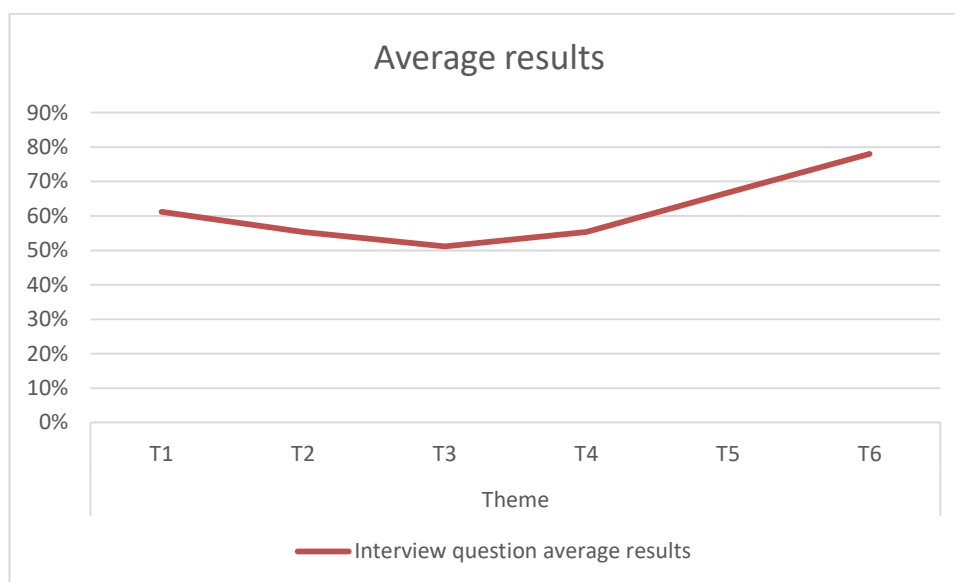
T5 (Cost of application). The historical data has shown that since the implementation of GSP the actual cost of the application has always been an issue. While the costs which were identified within this data were mainly related to the documentation and the RoO, the costs identified by the interviewees were more detailed. However, the interviewees' main issue was the cost of employing dedicated staff to administer GSP. Therefore, the argument with regards to cost should not be the application of the RoO but to the staffing to ensure that the whole process is being properly monitored from the suppliers, through the point of entry, to the importers and presenting, when required, documentation to the HMRC. Overall, the interviews do confirm that there is a costing issue, but the argument as to which element is the most cost heavy should be reconsidered.

T6 (Complexity of the RoO). From the beginning of GSP academic data has strongly implied that the RoO is too complex and that this is the reason for the GSP not to be fully utilized. The interviews have confirmed that this is indeed an issue and the interviewees commented that it was difficult to get proof from the supply chain that the goods qualify for the RoO requirement within GSP. However, the interviewees showed concern that HMRC held them responsible for the whole supply chain and if they are not able to provide evidence of compliance by the suppliers then penalties would apply.



Hence some importers will just pay the full duty at the point of entry rather than risk penalties. This supports the academic data that the RoO is having a direct impact on the utilization of GSP.

**Figure 7.8 Average results of Themes to Interview Questions**



The average results have been calculated per theme and are shown figure 7.8 above. Overall, theme six shows the highest percentage of concern within the interview data at 78 percent. This provides strong evidence that the interviewees strongly support the historical data, that the RoO is complex and provides an issue when applying GSP. Theme 3 shows the lowest average at 51 percent, although it is supported by the interviewees a number stated that they had a clear understanding of the technicalities, however, these interviewees were large companies and this may reflect within this result. The average in relation to cost of application was 67 percent, which suggests that the interviewees felt that this was a concern. Theme one, the uncertainty of politics, provided an average of 61 percent again showing the interviewees do consider this to be an issue. A similar response was reflected in theme two lack of awareness, averaging at 55 percent. Overall, these average results show that the UK importers' interview data is supporting the issues highlighted within the historical research.

### **7.3. Interpretation of findings in relation to MFN, UK GSP and Total eligible trade (Section 4.4)**

Looking at the issues of utilization from the early years of GSP policy to the current day, Weston et al (1980) argued that the MFN will reduce the overall trade opportunities available within GSP as the MFN agreements are less restrictive in their allocation rules and a number allow for zero rate importation tariff on entry to the EU.

The data shown in figure 4.3 page 103 shows the correlation between the level of UK International Importation Trade, UK MFN importation trade and the UK GSP Importation Trade from the Eurostat (2013) for the time period 2000 to 2015. The correlation result of 0.9680 between the UK International Importation Trade and the UK MFN importation is strong showing the MFN line follows the peaks and troughs of the UK International Importation Trade. The correlation of the data in relation to MFN to the GSP is 0.9710 which is a stronger similarity and suggests that the GSP trade is not affected by MFN trade, as if it were the result would have lower and would have been negative expected result. The correlation was also calculated for the UK International Importation Trade compared to the GSP zero; this was the lowest result of figure 4.3 page 103, at 0.9632. This suggests that the GSP does follow the UK International Import Trade but not as strongly as the MFN trade. Throughout the existence of data for UK International Importation Trade both MFN zero and GSP zero, shown in figure 4.3 page 103, show a strong correlation.

The results in figure 4.3 page 103 reflect that, although MFN has increased, it could be argued that GSP has not been affected by the increased usage of MFN. This suggests that the argument used by the academics Nilsson and Matsson (2009), Weston et al (1980), Townsend (2008) and Seyoum (2005) to name but a few, reasoning that the fall of utilization of GSP is due to the increased undertaking of MFN is incorrect. Instead, the UK GSP continued to reflect the UK trade peaks and troughs. Therefore, there is an argument that GSP is not affected by the use of MFN as the correlation is positive. If the argument made by the academics was correct then the MFN trade would increase and the GSP would decrease creating a smaller or negative result due to the gap widening. The opposite has been the result.

MFN and GSP investigated further and reviewed within figure 4.4 page 104. This shows an analysis of MFN and GSP and the correlation shown in figure 4.3 page 103 provides a clear view that the GSP follows the MFN.

The implication of this is that MFN is not having an impact overall on GSP utilization. In fact, when MFN peaks in 2010 at 500 billion dollars GSP also increases to 100 billion dollars. There are many factors as to why this could have happened; some countries only have GSP and do not have MFN in place. The importers, within their interviews, contradicted this result as all except one interviewee felt that there is a clear movement by the EU from GSP to Free Trade Agreements, such as MFN, and thus agreeing with the academics point of view that MFN will have a direct impact on the utilization of GSP. 44 percent of the interviewees stated that they had experience of GSP graduation being undertaken by the EU with the intention for the GSP to be replaced by a trade agreement. This does not impact on the MFN utilization verses GSP result as the LDCs currently have neither MFN nor GSP. 33 percent of interviewees found the customs documentation is similar to GSP and therefore the implication of trade agreements, instead of GSP would be acceptable by companies. Again, this is contrary to the findings in figure 4.3 page 103. Due to the complexity of this area it requires further research in relation to the results shown in figure 4.3 page 103.

To support the findings shown in figure 4.3 page 103, the data source of Eurostat 2016 is a reliable source and to place the MFN data alongside the GSP data during the research is a natural research progression to justify the GSP utilization. The implication of this action is very complex as there is an underlying assumption that MFN will have an impact on GSP. This may be correct as there are a number of future trade agreements currently being negotiated by the EU where GSP is currently in place. However, a number of trade agreements undertaken by the EU are less beneficial than GSP in reducing the tariff rate and this could be the reason for the results of GSP having a consent level of utilization within figure 4.3 page 103.

#### **7.4. EU GSP utilization, 2013 and 2014**

The EU GSP utilization was reviewed for 2013 and 2014, and is shown in figure 4.6 page 106. At the point of writing the thesis was the most current data available. The percentage between the eligible GSP imports and the actual GSP imports for 2013 was 73 percent and for 2014 it was 74 percent. This highlights that there is still a considerable gap of 27 percent and 26 percent respectively not claiming eligible GSP. Although there is an argument that 100 percent is not achievable due to the complex GSP arrangements and the number of EU borders the goods come in on. However, this utilization figure could be higher, and EU businesses are having to suffer the cost of paying the full import duty to be able to gain smooth progress within the supply chain. The eligible GSP trade amounts to 33 percent in 2013 and it drops slightly to 32 percent in 2014, accounting for a one third of the total import trade within the EU; if the utilization could be increased by a small amount this would have an impact on the cost savings for EU importers.

#### **7.5. GSP utilization for 1976 – 2014**

The historical data shows the largest increase of 26 percent in utilization over period is from 1976 34 percent to 1996 60 percent. 2014 utilization is at 75 percent. This increase from 1996 to 2014 by 15 percent which suggests that the momentum of utilization has slowed by 19 percent from the period 1976 – 1996. Although it is shown that the utilization has increased an impressive 41 percent since its first years of implementation to 2014, there is still scope for this usage to increase further. As shown in figure 7.6 page 226 there is the argument that the importers are covering the cost of goods not using GSP. This is supported by the interviewee data within sections 5.5.2 and 5.5.3 which show that there is a significant cost to apply the GSP and if the benefits of reduced import duty is not below £5000 then it is deemed that it is cost effective and full duty is paid.

## 7.6. Brexit

The research undertaken relates to the current GSP policies in place and legislated by the EU as the UK is still a full member of the EU at this point in time. Brexit has been an issue which emerged during the research period and has been considered during the research process as it will have an impact on the future UK trade policies and how the UK will operate any preferential trade. The interviewees all wanted to discuss the process of the UK vote and its result. The nine interviews took place before, during and after the vote. The data was reviewed for similar responses and seven common themes were found. Figure 6.2 page 193 shows the results for the interviews allocated to these themes. The main feature shown is the uncertainty which UK businesses have with regards to Brexit with 100 percent result within this theme. 78 percent of the interviewees want a transitional period to allow the opportunity for legislation to be put in place and allow UK businesses to educate themselves on the new processes. However, 67 percent felt that Brexit will increase costs to the UK business. 56 percent of the interviewees feel that the EU will allow the customs law to be transferred into UK trade law. 44 percent felt that the UK will be worst off as a global economy while 33 percent felt that the UK will improve as a global economy. These results imply that UK business is uncertain how Brexit is going to impact on the UK's global trade. 33 percent felt that the GSP could be undertaken by the UK and be improved to increase preferential trade. This would allow the issues raised within the historical data to be addressed which suggests that the GSPs utilization could be improved. One such issue being the RoO.

Overall, these results imply the level of uncertainty of the interviewees over the period June 2016 to July 2017 is of great concern. There are many issues for which UK businesses have questions in relation to international trade which, as yet, are not going to have definite answers until the UK leaves the EU after March 2019. This is due to the EU restricting the UK negotiating trade agreements until it has left the EU. However, the UK will have the advantage of negotiating the trade agreements with just the UK's economy to consider rather than 28 countries, so the process could be shorter. UK business have been informed that they will be consulted with regards to the construction of the various trade and preferential trade agreements.

## 7.7 Evaluation of hypotheses

Within the literature review the academic knowledge highlighted two issues:-

- The overall utilization of GSP.
- Effect of the Most Favoured Nations trade agreements on GSP utilization.

The three hypotheses which was research within the thesis:-

H1 *“The use of GSP has not been fully utilized since its inception.”*

H2 *“Most Favoured Nations (MFN) trade agreements have a negative effect on the utilization of GSP”*

H3 *“Complex rules have prevented the application of GSP.”*

### 7.7.1 The approach undertaken to justify the three hypotheses

The data collection period ran from early June 2016 to July 2017 and subsequently spanned the referendum held in the UK to determine its membership, or otherwise, of the EU. The referendum outcome supporting the UK leaving the EU (which is known as Brexit), had an impact on the research undertaken. In particular the current EU GSP trade policy will have to be re-negotiated by the UK government and be incorporated within the UK trade law. Therefore, the research reviewed data from the EU GSP system over its forty six years of incorporation to identify the reoccurring issues; these issues were triangulated by the interview data taken from June 2016 to July 2017 with UK importing businesses or associations.

Assuming that the UK would want to continue with GSP. While reading the literature it became clear that the UK had its own GSP system incorporated within the UK trade policy in 1971 and this remained active with the UK until it became a member of the EEC on 1st January 1974.

Having reviewed the literature in (Chapter 2) it was apparent that the Generalised System of Preference was available to UK importers in 1970 before the UK joined the EEC in 1974. Thus, with Brexit now going ahead, it provides an opportunity to review the issues in relation to the application of GSP which may provide justification for the UK to change some of the EU legislation to allow for easier access to the GSP and thus increasing its utilization. This is explored further within the future of GSP which is in the subsequent chapter.

## **7.8 Research covering the objectives**

After reviewing the literature in chapter 2 the following gaps in knowledge was established:-

- To justify the issues in relation to the utilization of EU GSP.
- To research the issues of EU GSP from the importers view.
- To use quantitative data to establish the impact of MFN on the use of EU GSP

### **7.8.1 To justify the issues in relation to the utilization of EU GSP**

The research was undertaken to establish the issues in relation the utilization of EU GSP. The following issues were established from the historical data:-

<b>Theme</b>	<b>Details</b>
T1	Uncertainty of politics.
T2	Lack of awareness.
T3	Understanding of technicalities.
T4	Erosion in preferences.
T5	Cost of application.
T6	Complexity of the RoO.

## **7.8.2 To research the issues of EU GSP from the importers view**

The main issues that arose from the interview transcripts:-

The remoteness from the GSP policy making process was an issue felt strongly by the importers. Mainly due to the impact on changes in GSP policy has within the business decision making process.

The importers expressed that if the products are eligible to GSP but if the documentation is in doubt then they would pay full duty rather than pay a penalty shown in 5.7.2. Penalties and legal obligation that the importers are responsible for is an issue which is not expressed within the literature.

The main cost that importers faced when applying GSP was to employ staff dedicated to the GSP process.

The administration category featured strongly within the issues identified by importers, with particular attention to the complex Rules of Origin, the cost of administering GSP and the overall level of documentation required. Interestingly the responsibility of providing the correct documentation is with the importer and very often if the documentation is in doubt then full duty is paid. The interviewees expressed the view that suppliers would provide inaccurate documentation not understanding the legal penalties involved for the importer.

The interviewees did note that they feel the EU is moving away from GSP to FTAs, however, timing of moving from GSP to a FTA

The interviewees did not really consider governance as an issue, they were more interested in how GSP affected their overall business.



### **7.8.3 To use quantitative data to establish the impact of MFN on the use of EU GSP**

The research undertaken was to use Europa (2013) database. Assess to the UK non-EU trade data, UK MFN trade data and UK GSP trade data was obtained and this were graphically compared. The correlation was shown within 7.3 and the overall the findings found there was a strong correlation between the MFN and GSP trade figures.

## **7.9 Contribution to knowledge**

The research issues identified from the literature are shown within 7.8 and how they have been developed and answered within the research data is summarised. All three categories which have been identified have made a contribution to knowledge.

By identifying the issues of applying GSP within the UK and EU has contributed to the academic knowledge of establishing reasoning in relation to the utilization of GSP. It has highlighted that since the beginning of application, GSP has been subjective in relation to the themes shown in section 7.8.1. With UK leaving the EU this has provided an opportunity for the contribution of the research to be used by the UK Government to develop UK GSP policy, enabling GSP to be more accessible by UK importers.

The contribution in relation to the data collected from UK importers interviews is invaluable. It shows a strong recognition by UK importers that there are a number of reasons as to why GSP is not applied to eligible goods and full duty is paid when entering the UK. See section 5.3. It is becoming more relevant with Brexit that UK companies are consulted with regards to the issues of GSP application as well as, the exporters from LDCs. This will enable the UK to provide a more generous GSP policy and increase its trade with LDCs and thus be instrumental to economic growth of the developing economies. For example the UK could include more developing commonwealth countries. The findings are detailed and have expressed a new platform for academic research by identifying the importance of the importers view when researching the utilization of GSP. See section 8.12.

Another platform developed was to use quantitative evidence in relation to the level of trade using MFN in relation to GSP, to establish the impact that MFN is having on GSP. This contributes to knowledge as it identifies that MFN does not have direct impact on the utilization of GSP as the findings highlight that both UK MFN and UK GSP follow the UK Total trade. Therefore the impact of the use of UK MFN on the utilization of UK GSP is limited, which is contrary to the academic knowledge shown in section 2.6. See section 4.4.1 and 8.12.

## **7.10 Conclusion**

Having considered the historical data and the interview data it has become clear that the interview data supports the historical data in many aspects and therefore issues that relate to the exporter also relate to the importer. This justifies the argument that the GSP utilization is affected by the application process. The complex political dimension with regards to protecting domestic markets also has an impact on the utilization of the preference. Theme six (see figure 7.8 page 232), shows rules of origin as having the highest average percentage highlighting that the interviewees have agreed with the academics' opinions, within the historical data shown within 4.2, that RoO is an issue for not utilizing the GSP. The full results of this are shown within 7.2.13.

However, the interpretation of the data comparing GSP to MFN within 7.3 showed a high correlation of 0.9710 which shows that GSP utilization is not seriously affected by the usage of the MFN. This has provided an argument that the GSP is not necessarily affected by importers using MFNs. The academics have suggested that GSP utilization is affected by the increased usage of MFNs; Nilsson and Matsson (2009), Weston et al (1980), Townsend (2008) and Seyoum (2005) to name but a few. Therefore this result contradicts the assumptions provided by these academics. However, the academics were using the EU trade figures, not UK trade figures. The data used within figure 4.3 page 103, is showing the breakdown of trade for the UK not the whole EU. This is per the Eurostat (2013) database. Due to the findings of the research data shown within 4.4 it has identified that more research should be undertaken investigating UK trade figures.

The GSP utilization shows an increase usage of the preference from 1976 to 2014. Although the increase of utilization slowed from 1996 to 2014 by 15 percent to an overall utilization of 75 percent. However, the interviewee data argued that, due to the cost of application, import duty is paid in full on GSP imports if the cost of application is higher than the refund of duty. Therefore, there is still an argument that more could be done to increase the use of GSP.

Brexit has become an issue during the collection of the interview data from June 2016 to July 2017 and the research into the utilization of GSP has considered the impact that Brexit could have on the GSP as the UK will have to renegotiate the preferential trade agreements. The historical data has shown that the UK had its own GSP trade in 1971 before joining the EEC on 1st January 1974. (See 4.2.1). At the time GSP was an important tool within the UK trade policy. Breda dos Santos (2005). There is a strong argument that the UK could use the GSP scheme as a temporary measure, while negotiating new trade agreements for the post Brexit era. The advantage of this is GSP scheme is non-reciprocal and therefore could be put in place more quickly than a reciprocal FTA. The issues highlighted within section 7.2 should be considered by the UK government if a UK GSP trade policy is negotiated in order to learn the lessons of the past.

Overall, the interpretation of the evidence has provided triangulation to support the academic literature, historical data and the interview data. The historical and interview data was combined using common themes to show how the two sets of data support one another. The conclusion from the interpretation of the evidence is that the issues provided by the historical data over the forty six years of EU GSP application are still relevant at the point of writing in March 2018; the interview data strongly supports these historical issues continuing in the modern era. Moving forward, the UK has a unique opportunity to renegotiate its own GSP policy and, therefore, should consider these issues to allow improvement on the UK utilization of GSP.

The conclusion will discuss the interpretation of the evidence in more depth leading onto an overall conclusion how the data has contributed to academic research. Further research will be considered to allow the data to be developed for future studies.

## **Chapter 8 Conclusion**

### **8.1 Introduction**

Within this chapter the findings found within the evaluation and are concluded with salient points made within the overall research. An evaluation of the three hypotheses is provided and an overall of how it has been developed over the research process is provided in 8.7.

The EU application of GSP issues from 1971-2014 are considered and the overall conclusion has been developed from the six themes used within the preceding chapters' analysis. The impact of the findings in relation to MFN, GSP and Total trade is reviewed, along with the impact of Brexit. The main points are concluded on within each section and provide the overall conclusions:-

- The UK Government's post Brexit policy and legislation should consider GSP, its use and modifications to it modest operandi in the UK's trade policy.
- The importers do have a direct impact on the utilization of GSP.
- GSP utilization is not affected by MFN.
- GSP is a complex trade policy

The chapter will review the previous chapters and provide summary conclusions of the main points that were developed in the research. It will combine findings from the different aspects of the data with academic underpinning. The overall conclusion is drawn from within the summary conclusions.

## **8.2 Generalised System of Preference Policy**

The EU have made it a priority to help developing countries benefit from globalisation by creating trade and promoting sustainable development. Commission of European Communities (2004). The EU has promoted preferential trade in the form of GSP as it favours LDC trade and also supports the WTO requirement of reducing poverty through trade. Within the first ten years, following the implementation in 1971 of the EU GSP, the Commission of European Communities (1976), highlighted that the development of the non-reciprocal GSP scheme which had previously been covered by the MFN trade which uses reciprocal concessions was a turning point with regards to the international commercial relations. Over the forty six years of implementation of GSP the EU has incorporated, within its GSP trade policy, the balance of trade and industrialisation and the implementation of the rules of origin. Commission of the European Commission (2004). GSP lies outside the GATT policy and its legal system which incorporates world trade policies, Consequentially the GSP policy can be changed or cancelled at any time. It could be argued that the donor countries have control and can withdraw, or alter, GSP when the LDCs increase their export market. Özden & Reinhardt (2005). Throughout this chapter the policy of GSP is considered and conclusions reflect these elements.

## **8.3 EU GSP application issues from 1971 – 2014**

The historical research covered in chapter 4 has shown that over the forty six years of EU GSP implementation there have been a number of assessments which have been provided to try and evaluate the utilization levels of GSP. The majority of the academic research in relation to the application of GSP has been from the exporter's view point. Six themes were established within the research, these being:-

- |    |   |
|----|---|
| T1 | Uncertainty of politics.  |
| T2 | Lack of awareness of GSP.                                       |
| T3 | Understanding of the technicalities required in administration. |
| T4 | Erosion in preferences.   |

T5 Cost of application.

T6 Complexity of the Rule of Origin.

These themes when put together with the analysis from the UK Importers Interviews - chapter 5 and the results are shown within the interpretations - chapter 7 within figure 7.8 page 232, average results of themes to interview questions. It reveals an overall average of 78 percent was the highest result related to theme six, (figure 7.7 page 228). This strongly supports the historical data that the RoO is very complexed and is an issue with regards to applying GSP, from both the importers and exporters view. While they have supported the academic data findings with regards to the LDCs view point, the GSP legislation and documentation has a great impact on the importers with regards to how they implement GSP. This supports the academic argument made by Brenton (2003) who argued that to increase utilization the RoO need to be less complex. Low et al (2009), went further and suggested that compliance issues of RoO induces administrative burdens in relation to origin requirements. Low et al (2009). Within 5.5.2 the interviewees stated that the importer has the responsibility of ensuring that the documentation is correct. The exporters do not have to consider this cost and the burden on the importers to ensure that the documentation must be complete has been ignored within the academic research. The following is an example of an interviewee's comments, (Company C, Director, UK Consultant).

:-

*"It is the importer that has to satisfy the UK HM Revenue and Customs that they have undertaken the required checks with the LDC supplier, that the country of origin/rules of origin percentages have been met. If there is any doubt then the UK HM Revenue and Customs will issue a penalty to the UK importer. Many importers stated that there are times when they would just pay full duty on importation as they do not want to risk the penalty."*

The conclusion drawn is that although the exporters find the documentation cumbersome, it is the importers that suffer the cost of increased import duty or penalties for incorrect documentation and associated delays to the goods within the supply chain. Therefore, the argument should be made that the importers have a greater issue in relation to RoO, when applying GSP, than the original LDC exporter.

Figure 7.8 page 232 and figure 7.6 page 226 further revealed that 67 percent related to theme 5; the cost of application. Academics acknowledge that the administrative costs undertaken to implement GSP has an impact on the level of preference that is utilized. Evenett (2008). Academics argued that the tariff margin threshold for preference utilization is 3 to 4 percent. In contrast to this Candau and Jean (2006), Machin (2006). Nilsson and Matsson (2009), argued that there is a relatively high use of the EU GSP for imports that have import tariff lower than 4 percent, thus contradicting the 3 to 4 percent threshold theory. However, the interviewees concluded strongly that there is a cost factor which has an impact on how they utilize the preference. In figure 5.5 page 156, different elements of the costs are considered; the cost of employing staff providing the highest result. This is supported further by interviewee comments within section 5.7, Cost Implications, Company A, Senior Manager, Large Retailer:-

*“Personnel were employed to administer the GSP and overview trading issues. They also have a shipping/imports department and provide education to the business as a whole with regards to ensuring that documentation is kept. So there is considerable cost with regards to employing staff.”*

The evidence shows that the costs of application of GSP affects both LDCs and importers in how GSP is applied; both of whom consider the costs to carry great weight in the decision to GSP or not.

Figure 7.8 page 232 showed that theme one, figure 7.2 page 214, uncertainty of politics in relation to interview data, produced an average result of 61 percent. The highest result within this category was the remoteness felt by the interviewees in relation to the EU GSP process and policy making (considered in 5.4.1). Company G, Director, UK Association Retail Sector commented:-

*“Well, GSP is taken by other people. However, although decisions on this are taken in Brussels, fact is, at the moment, since the Lisbon treaty, the European Parliament has got a much greater say in many areas of European policy, including trade policy.”*

Company F, Director, Multinational Pharmaceutical Manufacturer, highlighted that there is no redress for the trader with the authorities.

*“There is one thing that is missing from all these trade agreements; that there should be more of a process where the trader can raise issues with the authorities.”*

This supports the academic findings from within the historical data which highlighted that, as the EU grows, the GSP will develop a strict application policy. Iqbal and Allen (1975). With EU member states distributing GSP between LDCs to ensure that the ceiling levels of product would be fulfilled. Weston et al (1980). The EU graduation policy is activated to distribute the GSP evenly between LDCs. However, it enables the EU to exclude certain countries product lines for specific sectors from having GSP. The EU policy makers formulate graduation with regards to the ratio of the beneficiary country's share of the EU total imports within a sector and the share of the total EU imports in all sectors UNCTAD (1999). Therefore, the EU GSP policy does not allow importers or exporters to have any input into the decision making process, it could be argued that GSP is allocated on EU trade statistical data. To conclude, the remoteness from the GSP policy making is felt by exporters and importers alike, having a direct impact on their trade and their decision making process.

Theme two lack of awareness (see figure 7.3 page 217) shows a 55 percent average within figure 7.8 page 232. The interview data has reflected that smaller to medium companies will not have the knowledge to be able to apply for GSP and that, as a consequence import duty is being paid in full. This is reflected in figure 5.4 page 142.

Company E, Director, UK Association Manufacturing sector commented:-

*“There is a great degree of unawareness in many smaller, medium businesses of importing and it is can be viewed as not a professional skill and therefore not included within the body of the business. This is an issue for the smaller businesses as the information on the Customs notices are not easy to follow if the importer has not had experience in this field. Also, they are interpretations of the law they are not the law itself.”*

This supports the UNCTAD (1999) consideration that lack of awareness among LDC exporters has led to goods not accessing the EU market. In the 1990s the utilization of



the EU GSP scheme by LDCs was low with approximately only one third of eligible goods benefiting from the GSP scheme. UNCTAD (2003). Brenton and Manchin (2003). This adds weight to the argument that LDCs are not aware of GSP and the conclusion that there is concern that smaller/medium sized importers/exporters do lack knowledge to implement the GSP. These companies are potentially missing out on vital cash flow as they are paying fully duty.

Figure 7.8 page 232, shows the results for theme four, erosion in preferences in relation to interview data, figure 7.5 page 224, at 55 percent. While this is not the strongest results, it is still over 50 percent should be considered as a strong issue. The main concern raised by the interviewees was the move from GSP to FTA, as they felt that GSP was being reduced, to compensate for this the EU had promised, in some cases, that a FTA would be put in place to continue the zero duty rate. However, GSP has been graduated out and the FTA is not yet in place, leaving imports liable for the full import duty rate. Thailand was highlighted as an example of this situation. Company C, Director, UK Consultant, commented (5.10.1):-

*“The comment that if a country is coming out of GSP then a FTA would be put in place has not really been happening. I.e. Thailand has come out of GSP and, as yet, the FTA has not been signed, along with Brazil and Russia.”*

Within the historical data the issue of the preference erosion received comment from Weston et al (1980), and Townsend (2008) both of whom said that MFNs are being used as they are less complicated than GSP. Hiratsuka et al (2008), argued that the exporters will utilize the MFNs as they are deemed to be more advantageous than using GSP.

To conclude, the interviews confirm moving GSP to FTAs is an issue as it leaves preferential imports paying full duty while the FTA is being ratified. The academics have suggested that exporters tend to use MFNs if one is in place instead of GSP. Therefore, there is an argument that the EU is moving away from GSP to FTAs.

The final theme is theme three, figure 7.4 page 221, which addressed the understanding of technicalities. This was ranked as an issue by 51 percent of interviewees in figure 7.8 page 232. Again, this is a strong response as it over 50 percent. The main feature highlighted within 7.2.5. is the education of suppliers with a 67 percent response from

the interviewees. Company A, Senior Manager, Large Retailer, commented in section 5.6.2:-

*“GSP countries are aware of the preference arrangements. However, if the suppliers actually understand the application and origin rules of GSP is an issue. It can be used a marketing tool by the supplier to gain business with the purchaser.”*

This view supports the argument of Langhammer (1983), that there is a naïve approach to administration by exporters which has led to fraudulent documentation from the exporters. The EU border control rejects the paperwork at the point of import and full duty has to be paid. The exporters, by not understanding that the documentation has to be original and correct are therefore costing the importer the import duty as well as, possible, penalties and delays in the supply chain.

## **8.4 Conclusion of EU GSP application issues from 1971 – 2014**

The study of EU GSP application issues from 1971-2014 has shown that the six themes raised within the historical data are strongly supported by the interviewees. It supports the argument that the importers should be considered by academic research to establish a 360 degree perspective of the issues concerning the application of GSP. The argument that RoO is problematic, (if it is not correct the GSP fails and full duty is applied) is strong. The importers have the issue of receiving the correct documentation while the exporters have the issue of understanding the technicalities to be able to produce the required documentation. The cost of application is a big issue for importers and exporters, giving weight to the argument that the GSP scheme is too complex. The argument that the importers feel remote from policy makers is supported by the analysis of the interviews. The changes that can be made to the EU GSP trade policy have a direct impact on the importers' businesses as well as the exporting companies. Therefore, the global supply chain is being constantly adjusted for changes in EU GSP policy. The lack of awareness, in particular of smaller/medium size UK importers, with regards to GSP legislation is a concern as some are not aware of the GSP at all, while others apply GSP without understanding the documentation requirements and are subject to penalties. The erosion of GSP by using FTA or MFN in place of GSP is a

concern and this is considered within 8.5. Finally considered was the understanding of the technicalities which again supports the argument that GSP is too complex.

## **8.5 Conclusion regarding impact of findings in relation to MFN, UK GSP and Total eligible trade**

The argument that MFNs utilization is increasing and therefore reducing the usage of GSP has been put forward by a number of academics; Nilsson and Matsson (2009), Weston et al (1980), Townsend (2008) and Seyoum (2005). This stance has been questioned by the findings shown in section 4.4. The data shown within figure 4.3 page 103, comparing the UK's total import trade, MFN trade and GSP trade, period 2000 – 2014, shows a clear contradiction to this argument as it appears that the GSP remains constant while the MFN follows the pattern of the total trade. However, when this is examined in greater detail in figure 4.4 page 104, (Percentage of Preference Schemes in relation to MFN Total Eligible Trade for the UK) the GSP shows that it is in fact following the MFN trade with a correlation of 0.9710. Therefore, this contradicts the academic argument that has been included within many academic studies. It suggests that the academics have continually made assumptions regarding the issue of GSP utilization. However, to contradict the findings in figure 4.4 page 104, the interviewees provided a strong result of all except one interviewees within Figure 5.8 page 174 identifying a move from GSP to FTA, which stated that they felt that GSP was being replaced with FTAs. However, due to the time lag between the removal of GSP and the FTAs to be put in place, these would not have an impact on the results shown in figure 4.4 page 104. Overall, the academics' assumption that MFNs are being utilized at the expense of GSP is not the case as GSP is following the MFN trade pattern.

## **8.6 Conclusion in relation to the issue of utilization of EU GSP**

The level of utilization was considered within the historical data to establish the level of usage of EU GSP. Within figure 4.7 page 107, Total GSP Utilization Percentage for 1976, 1996 and 2014, there is a clear progression of usage of GSP reaching a level of 75 percent by the end of the available data in 2014. While there is an argument that this

is high. Due to the GSP accounting for 33 percent of EU trade shown in, Table 4.1 (Percentage of GSP eligible trade to EU imported trade), thus is there still a considerable amount of EU GSP eligible trade which is not being utilized. This justifies that it would be possible to increase the level of EU GSP trade further.

## 8.7 Conclusion of hypotheses

At the start of the thesis after the literature review the following hypotheses were formed:-

- H1 “The use of GSP has not been fully utilized since its inception.”
- H2 *“Most Favoured Nations (MFN) trade agreements have a negative effect on the utilization of GSP”*
- H3 “Complex rules have prevented the application of GSP.”

As a result of the analysis of the historical data and the structured interviews the following conclusions were formed:-

- H1 “The use of GSP has not been fully utilized since its inception.” **True**
- H2 *“Most Favoured Nations (MFN) trade agreements have a negative effect on the utilization of GSP”* **False**
- H3 “Complex rules have prevented the application of GSP.” **True**

## 8.8 Impact of the UK leaving the EU (Brexit) in March 2019

During the interview research period of 1 June 2016 to 31 July 2017 the UK had a referendum to consider the question of remaining in or leaving the EU. The result was for UK to leave the EU. This became known as Brexit. Within the historical data 4.2.1, it was seen that the UK was one of the first countries to apply a form of GSP in 1971.

When the UK joined the EEC (forerunner of the EU) on 1st January 1974 the UK transferred to the EEC GSP trade agreement, which was not as liberal. At the time of the transfer the UK had more trade with LDCs than the EEC and the UK scheme was deemed to be an important part of the UK international trade strategy. Iqbal and Allen (1975) and Breda dos Santos (2005). The UK had incorporated GSP as part of its trade policy and included it within its trade law independently of the EEC. Weston et al (1980). Breda dos Santos (2005) and Iqbal and Allen (1975). With the UK GSP scheme being non-reciprocal and the fact that it has already been in place within the UK trade law, there is a strong argument for the UK to implement its own GSP scheme as a temporary measure on leaving the EU in 2019. It would not take as long to negotiate with the WTO to instigate the GSP policy as to negotiate FTAs. FTAs take longer as they are reciprocal and the negotiations therefore are more complex, even after they have been agreed it still will take approximately two years to legally ratify any agreements.

Within section 6.4 it was noted that the EU have made it clear that no FTAs can start to be negotiated until after the UK leaves in March 2019. These will then take a number of years to negotiate and a further two years to be legally ratified. In the meantime the UK will be at a disadvantage within the global economy. House of Lords (2017).

## **8.9 Views on the Brexit issue**

The interviewees were strongly placed to provide a UK business view point on the Brexit issue and how it will affect their trade. This is underpinned, where possible, with political papers from the House of Lords, academic and news articles. These views were modelled within seven common themes which were following the UK's exit from Brexit will:-

T 1 The UK be at a disadvantage as a global economy?

T 2 The UK improve as a global economy?

T 3 The EU custom's law be transferred into UK custom's law?

T 4 GSP continue and be improved.

T 5 There be an increased cost to UK business

T 6 Two years be too short, for any transitional period that is implemented.

T 7 There be uncertainty within UK business with regards to Brexit.

Figure 6.2 page 193, interview comments on Brexit, highlights with a response score of 100 percent that T7, uncertainty within UK business is a deep concern within UK business. 6.10 discussed the level of impact Brexit will have on UK business as policy develops in the immediate future, during and after Brexit as the negotiations progress. This is due to the inability to plan to continue to provide the most effective global supply chain. An example of the interviewees' comments:-

10th July 2017, Company I, Director, Multinational Manufacturer.

*"I am unsure how the UK is going to be ready for trade from day one after the UK leaves the EU"*

T6 considered if two years is too short for a post Brexit transitional period, section 6.9 shows that 78 percent acknowledged the 2 years to negotiate an agreement to leave is too short and that a transition period is required after the actual point of leaving in March 2019. Henley (2017) and the interviewees stated that, currently, the EU negotiates trade agreements collectively for 28 countries, but the UK has not negotiated trade agreements for itself since 1973. Even the House of Lords (2017) suggested that for the UK to negotiate FTAs with 15 countries was ambitious. The majority of the interviewees argued that the lack of experienced trade negotiators with the UK civil service would leave it unable to cope with the work load of negotiating the free trade agreements and the generalised system of preference agreements post Brexit.

There was a strong view shared by 67 percent of interviewees that Brexit will increase cost to UK business (T5). Within 6.8 the main concern was the continued access to the current FTAs and preferential trade. The House of Lords (2017) stated that it will be difficult for the UK to continue using FTAs or preferences with third countries after Brexit.

One of the interviewees (8th March 2017, Company G, Director, UK Association Retail Sector) commented:-

*“It is very interesting at the moment; there are up and down sides to leaving the EU and we do lots of Euro trade and we do not want lots of extra work of paying duty.”*

There was a reasonably strong view for T4 (Will the EU customs law be transferred into the UK customs law). With 56 percent responding that they felt that the UK negotiators would be able to transfer over the EU customs law into UK customs law, which would provide ease for the transition. If not, then the UK will be looking to the Customs and excise act 1973, to build upon. Stevens & Kennan (2016), commented that the time limitations, would make it feasible for the UK to use a pre-existing EU regime. GSP could be developed using the EU GSP trade policy as a base. This is still a level of uncertainty regarding this at the point of writing, March 2018. An interviewee, (7th June 2016, Company A, Senior Manager Large Retailer), observed that EU custom's law could become the basis of the UK customs in the future, for simplicity and it would also make the UK more comparable with the EU systems.

When considering T1, (Will the UK be disadvantaged as a global economy after it leaves the EU). Shown within 6.4, 44 percent felt that this would be the case. An example interview response is below:-

10th July 2017. *“The interviewee, (Company I, Director, Multinational Manufacturer). suggested that they have concerns with the UK supply chain, as any delay in the chain due to incomplete documentation, i.e. 6 hours or a day alone, means a loss of time, money and a loss of competitiveness. Keeping the trade flows moving is a very big aspect of the business in general, this is currently putting UK trade into limbo. Therefore, global supply chains are starting to be allocated outside the UK due to the uncertainty.”*

However, section 6.5 shows 33 percent felt that the UK will improve as a global economy (T2). An interview on 8th March 2017, Company G, Director, UK Association Retail Sector commented:-

*“The rest of the world opens up dramatically and the UK cannot do any deals on their own at the moment as the UK has to go via the EU.”*

The House of Lords (2017) reflected that some businesses are considering moving from the UK to another EU country, while the UK Trade Policy Observatory (UKTPO), University of Sussex, acting as a witness within the House of Lords (2017), felt that this was an opportunity for the UK to increase its international trade.

Finally when asked to consider if GSP should continue and be improved, (T4). Figure 6.2 page 193, section 6.7 shows that 33 percent felt that the UK will continue with GSP and the UK would improve the GSP process making it less complex. An interviewee made the following comment:-

3rd March 2017, (Company E, Director, UK Association Manufacturing sector).

*“The interviewee suggested that one of the very first things that the UK will do when it reaches a position of being able to is to put in place, what would be called an autonomous preference scheme for imports of developing countries, in other words, a UK version of the Generalised System of Preferences. This will provide a GSP regime that is a beneficial to LDCs similar to what is currently operated through the EU”.*

## **8.10 Conclusion of views in relation to Brexit.**

To conclude, when considering the main issues that UK businesses have at this point in time, (March 2018), with regards to the trade policy and how it is going to be affected by the UK leaving the EU the following points came to the fore:-

Uncertainty on how the UK government is going to develop the trade policy is currently frustrating UK business and many are suspending decisions until more detail is known while others are carrying on and moving their EU supply chains from the UK to the remaining EU and allowing the UK to be developed to access the rest of world.

UK interviewees felt strongly that initial two years for the UK to the EU is too short as it is a very complex process on which the UK government is making slow progress. There is an argument that there should be a transitional period provided.



There will be an increased cost to UK business over the Brexit period. The main argument is the loss of FTA or preferential agreements i.e. GSP, while the UK Government negotiates new agreements after March 2019.

While it is hopeful that the EU customs' law could be transferred to the UK customs' law this has not yet been confirmed and this has provided further uncertainty for UK business.

The interviewees were divided when considering if the UK would gain advantage with international trade or would the UK be disadvantaged. This fuels the argument regarding uncertainty.

However, it was felt by the interviewees that the UK would continue with GSP and improve the scheme to be less complex.

## **8.11 Overall conclusions**

The research with regards to issues in relation to the utilization of GSP through-out its application has shown that the importers' evidence does support the exporters' view. There is a strong argument the six themes highlighted within the data do have an effect on GSP utilization as importers have expressed that if the documentation is in doubt they just pay the full duty. Other factors including lack of knowledge that the GSP scheme exists, RoO compliance, political influence and overall understanding of the GSP process also contribute to the payment of full import duty.

The argument that importers re using MFNs rather than GSP and that this has led to the erosion of preferences has proved to be a contradictory issue. Previous academic studies have used this argument many times and the importer seemed to support this argument. However, the importers did not suggest that they themselves have switched from GSP to an MFN. The data provided from Eurostat suggested strongly that for the UK the GSP utilization follows the MFN utilization. Therefore, the conclusion is that the previous studies are in error with this assumption in relation to UK trade.

Brexit will have a direct impact on GSP. The UK Government will need to consider GSP within its future trade policy as it provides a significant reduction in costs to importers and without it the importers will be faced with paying full import duty. The UK had the

GSP scheme in place in 1971 thus it formed part of the UK trade policy before the UK become an EEC member in 1974. It could be reviewed and updated for use within post Brexit UK trade policy. Alternatively the EU could allow the UK to transfer its GSP policy to the UK initially. The UK can then adopt a more flexible policy that takes into consideration the six themes highlighted in the research and improve the application of any GSP scheme. As it is a non-reciprocal trade agreement it can be established in a timely basis. This would be an advantage as FTAs are reciprocal and are will take longer to establish. It would be advantageous for the UK government to implement its own GSP policy when leaving the EU as UK trade affects the retail sector since a high proportion of goods are imported currently under the EU GSP. If access to preferences stopped then the UK will find cost of goods rising by 12 percent on clothing in particular. The research has provided a strong argument for the UK to have its own GSP after it leaves the EU.

The research undertaken within this thesis clearly argues that the importers' view should be considered when researching GSP as they formed an integral part of the application of GSP. However, it is important to consider the exporters' view and to ensure that the scheme is an effective tool for LDCs to access the global supply chain. Research should consider the impact the GSP is having on importers as this will help to establish the true cost of implication and accessibility to the donor country.

## **8.12 Contribution of Knowledge**

The author of the thesis has advanced the study of preferential schemes and made a significant contribution to academic theory and policy. The thesis is the first of its kind to provide a unique study of GSP utilization and how it is currently interacting with the complex environment in relation to the UK:-

- Prior to leaving the EU.
- The uncertainty during the process of the UK leaving the EU.
- How the GSP scheme may be incorporated within UK trade policy after it leaves.

The author uniquely establishes that the theoretical understanding of the application of GSP preferential tariffs at this pivotal point in time within the UK trade history. The thesis

provides academic knowledge which can be used in relation to other EU countries and their use of the GSP system.

### **8.12.1 The contribution to knowledge at a theoretical level.**

#### **MFN versus GSP Theory**

The authentic approach of examining the theory of utilization of MFN versus GSP as trade preferences has added to the knowledge with the combination of using contemporary and historical data. This, combined with several disparate sources into one theme, has strengthened the conclusion that MFN does not have an impact on GSP. It establishes that the theory of using preference is both aiding donor market and LDC markets.

An example of this:- Data versus financial information. Dollar and Euro financial data incorporating inflation rates to produce one set of data to be able to compare the data to US dollar trade. It combines a number of sources that previously have not been considered and shown agreement of the overall data producing the same conclusion.

#### **Contribution to knowledge:-**

MFNs do not impact on the utilization of GSP. Therefore as GSP is a non-reciprocal trade agreement, it would be more accessible to use after the UK leaves the EU in March 2019.

#### **Protectionist Theory**

The trade theory that the EU operates a protectionist generalised system of preferential trade system as oppose to a full free trade policy has been examined by analysing the EU GSP policy choices which govern free trade or a protectionist route. It provides a clear picture that it is currently being used by the EU as a protectionist tool. This re affirms the protectionist element shown in the literature.

**Contribution to Knowledge:-**

The complex rules on the current application of GSP and the application of graduation out of GSP has formed a protectionist tool. The UK government has the opportunity to reconfigure its own application of GSP trade after Brexit.

**Theory of Preference Utilization**

The unique examination of the preferential trade theory before Brexit and during the Brexit process by investigating data from UK importers has provided an authentic contribution in laying down a foundation in relation to preferential trade theory post Brexit. It will enable evaluation of the impact on UK preference at the point in time of change. The contribution to knowledge in this area has shown the chaos of Brexit effecting UK business. This will be of value to other EU countries who may consider leaving the EU in the future. The data has therefore clearly added to the value of the theory of preferences.

**Contribution to Knowledge:-**

There is a distinctive contribution of knowledge in relation to the theory of preference utilization with regards the LDCs and the importers view point. This has provided a more in depth analysis of the theory and shown that there is evidence that the importers influence the preference theory and have similar issues to the exporting LDCs.

**8.12.2 The contribution to knowledge at a policy level.**

The contribution of knowledge in relation to the policy of EU GSP and how it is formed, shows that the GSP policy impacts importers as well as exporters; even when the policy is formed by the EU. The distinctive knowledge that the UK importers feel remote from this process and the changes of policy made by the EU GSP committee, contributes to the possible improvements that could be undertaken by the UK after it leaves the EU.

Brexit has provided a unique position with regards to the UK GSP policy and the knowledge formed from the thesis research will contribute to developing the UK GSP trade policy and how to increase its utilization. Reviewing the historical concepts from forming the original UK GSP trade policy in 1971 transferring to the EU GSP trade policy in 1973 and the contemporary EU GSP policy over 46 years. Provides a distinctive knowledge contribution to evaluate the change of policy from the EU to UK policy after Brexit. It could lead to a prerequisite understanding for the future development of UK trade after Brexit.

The UK GSP policy after Brexit should consider the knowledge contribution of extending the LDC lists and to provide a less complex application process for the UK importer to use, would allow the preference to be more attractive for UK business to use. Therefore, for the UK to incorporate a GSP trade policy after Brexit and to maximise utilization the UK government has to involve both importers and exporters.

## **Conclusion**

If, in the future, another EU country leaves the EU (for example, Denmark or Italy) the unique academic knowledge provided within this thesis would be relevant and provides a platform of academic theory for this situation. Other countries who currently operate their own GSP scheme, for example, Norway, would find the theories in relation to the utilization of the GSP in respect of the UK of relevant comparison. Therefore, future academic work can be developed from the research and this provides significance to the thesis. It can be acknowledge that the author has added to academic knowledge and the thesis stands on its own with regards to its contribution to academic theory.

## **8.13 Future Research**

### **8.13.1 Limitations of the sample selection**

The main limitation in relation to the study is the current uncertainty within the business environment in relation to international trade and Brexit. It was a concern for business

before the vote on the 23 June 2016 and currently the uncertainty looks to continue for some time to come. This had an impact on the sample size and has provided a different weighting on the initial research. However, the sample size has covered a wide range of business sectors. This has restricted business grouping within their sectors and thus limit in depth analysis on how the business sectors are utilizing GSP.

Due to Brexit, the research undertaken has been developed to incorporate historical data in respect to the application of GSP, as the UK had incorporated GSP policy before joining the EU. The interview data was used to support the findings within the historical data in relation to the utilization issues while incorporating data in relation to the Brexit issue. However, this part of the data is limited due to the uncertainty on how the UK Government is going to proceed with GSP, once the UK leaves the EU.

The inability to find data sources that relate to 1970s to 1990s as the databases start at 2000. It was time consuming; having to collect the data was from peer sourced articles for this period. The data was limited within this period to what was accessible and not always on a constant frequency. However, the material from 2000 onwards was available on Eurostat made data comparisons more effective.

### **8.13.2 Scope for future research**

The current theoretical understanding of GSP trade and its application provides a platform for future research in respect of the effect of MFN on the utilization of GSP. Further investigation is required as the trade figures presented in 4.4.1 found that the MFN does not have an impact on the utilization of GSP, which is in contradiction to previous academic research. Therefore it has an impact with regards to prior and current academic research and should be further researched.

The UK will be developing its own trade policy once it leaves the EU. GSP could be used as a temporary trade agreement, as it is non-reciprocal, while it develops FTAs which are reciprocal and therefore will take longer to put in place. This will provide a unique opportunity for the UK to develop a GSP scheme that is less complex and develop its own RoO policy. Within 8.8 it was highlighted that the UK's GSP policy prior becoming a member of the EEC was more flexible and had greater trade from LDCs than the EU

GSP policy at that time. The UK scheme was deemed to be an important part of the UK international trade strategy. Iqbal and Allen (1975) and Breda dos Santos (2005). The UK incorporated GSP as part of its trade policy and included it within its trade law independently of the EEC. Weston et al (1980). Breda dos Santos (2005) and Iqbal and Allen (1975). Current EU GSP trade policy is complex and there is an argument that if the UK implements its own GSP scheme after Brexit then while the application of GSP should be made similar the RoO less complex. This would be possible, given that the UK will be independent from the 27 EU countries. The scope of future work remains as the theories are still evolving due to the Brexit scenario and as time moves forward the uncertainty will be less and there will be more robust academic theories developed.

After the UK leaves the EU the future research direction needs to continue to collect data from UK importers with regards to the utilization of GSP. The trade data in relation to UK GSP trade will be more accessible and therefore analysis between UK GSP and UK MFN trade to be researched to establish if there are any trends/patterns of trade.

Continue to review EU GSP trade to monitor if the levels of trade have been affected by the UK leaving and if the EU has an issue of GSP utilization.

UK will have own trade rules after March 2019, future research as to the structure of UK companies should be undertaken as they may become more introspective and inward looking or is there a more outward UK trade framework competing effectively within the global supply chain.

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## **Appendix 1**

### **Expansion of the European Union.**

<b>Year of Joining</b>	<b>Countries</b>
01/01/1958	Belgium, France, Germany, Italy, Luxembourg, Netherlands.
01/01/1973	Denmark, Ireland, United Kingdom.
01/01/1981	Greece.
01/01/1986	Portugal, Spain.
01/01/1995	Austria, Finland, Sweden.
01/05/2004	Cyprus, Czech Republic, Estonia, Hungary, Latvia, Lithuania, Malta, Poland, Slovakia, Slovenia.
01/01/2007	Bulgaria, Romania.
01/07/2013	Croatia .

## **Appendix 2 Interviewee Question Analysis**

### **Question Analysis Summary Results**

Issue with Knowledge	57%
Administration	58%
Costing of GSP an Issue	59%
Remote	89%
Governance	39%
Graduation	41%
Move from GSP to FTA	61%

## Questions

1. How do you think this barrier could be removed?
2. Is the level of documentation for suppliers an issue for under-utilization?
3. Is the level of documentation for the importer an issue for under-utilization?
4. Does the country of origin have an impact on utilization?
5. Is administration (cost of), in relation to the application of GSP an issue for importers?
6. Is there lobbying for the GSP by the larger companies?
7. Do you feel that larger companies have an advantage with regards to being able to afford to have the ability to utilize the preference?
8. Do you follow the trade agreements?
9. Do you use Europa as a source of knowledge?
10. Is there an issue in relation to education of suppliers?
11. Do you think smaller/medium companies have a knowledge barrier with regards to how to apply for preference?
12. Is cost a consideration above quality?
13. Is GSP included in the main plan?
14. Is GSP treated as a bonus?
15. Is there an issue in relation to penalties?
16. Is there a cost of employing staff?
17. Is there an issue of the use of the ethical approach when providing GSP?
18. Is corruption an issue in relation of the suppliers from LDC?
19. Has graduation been replaced by another trade agreement?



- 20. Is there an issue with the removal of different layers of GSP i.e. GSP+?
- 21. Is graduation an issue?
- 22. The Free Trade Agreements customs documentation is similar to GSP.
- 23. At the moment there is a move from GSP to Free Trade Agreements.
- 24. Do you feel remote from the EU GSP process?
- 25. Have you seen changes in the approach HM Customs and Revenue with regards to preference?
- 26. Is GSP used as a political and protectionist tool?
- 27. Is there an element of smaller/medium companies losing out preference by using agents?

# **Question Analysis.**

Q no. order										Total response	Total	% results
Administration	A	B	C	D	E	F	G	H	I			
Q1	Y	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A			
	1	0	0	0	0	0	0	0	0	1	9	11%
Q2	Y	Y	Y	N/A	N/A	N/A	N/A	N/A	Y			
	1	1	1	0	0	0	0	0	1	4	9	44%
Q3	Y	N/A	N/A	Y	N/A	Y	Y	Y	Y			
	1	0	0	1	0	1	1	1	1	6	9	67%
Q4	Y	Y	Y	Y	N/A	Y	Y	Y	Y			
	1	1	1	1	0	1	1	1	1	8	9	89%
Q5	Y	Y	Y	Y	N/A	N/A	Y	Y	Y			
	1	1	1	1	0	0	1	1	1	7	9	78%
	5	3	3	3	0	2	3	3	4	26	45	58%

## **Administration questions**

Q1 How do you think this barrier could be removed?

Q2 Is the level of documentation for suppliers an issue for under-utilization

Q3 Is the level of documentation for the importer an issue for under-utilization?

Q4 Does the country of origin have an impact on utilization?

Q5 Is administration (cost of), in relation to the application of GSP an issue for importers

Issue with Knowledge	A	B	C	D	E	F	G	H	I	Total response	Total	% results
Q6	Y	N/A	Y	Y	N/A	N/A	N/A	N/A	N/A			
	1	0	1	1	0	0	0	0	0	3	9	33%
Q7	Y	Y	Y	N/A	N/A	N/A	Y	Y	N/A			
	1	1	1	0	0	0	1	1	0	5	9	56%
Q8	Y	Y	Y	N/A	N/A	N/A	N/A	Y	Y			
	1	1	1	0	0	0	0	1	1	5	9	56%
Q9	Y	Y	Y	N/A	N/A	N/A	N/A	Y	Y			
	1	1	1	0	0	0	0	1	1	5	9	56%
Q10	Y	N/A	Y	Y	N/A	Y	N/A	Y	Y			
	1	0	1	1	0	1	0	1	1	6	9	67%
Q11	Y	Y	Y	Y	N/A	Y	Y	Y	Y			
	1	1	1	1	0	1	1	1	1	8	9	89%
	6	4	6	3	0	2	1	5	4	31	54	57%

## **Issue with Knowledge questions**

Q6 Is there lobbying for the GSP by the larger companies?

Q7 Do you feel that larger companies have an advantage with regards to being able to afford to have the ability to utilize the preference?

Q8 Do you follow the trade agreements?

Q9 Do you use Europa as a source of knowledge?

Q10 Is there an issue in relation to education of suppliers?

Q11 Do you think smaller/medium companies have a knowledge barrier with regards to how to apply for preference?

Costing of GSP an Issue	A	B	C	D	E	F	G	H	I	Total response	Total	% results
Q12	Y	Y	N/A	N/A	N/A	Y	N/A	N/A	N/A			
	1	1	0	0	0	1	0	0	0	3	9	33%
Q13	Y	Y	N/A	N/A	N/A	Y	N/A	N/A	N/A			
	1	1	0	0	0	1	0	0	0	3	9	33%
Q14	N/A	N/A	Y	Y	N/A	N/A	Y	Y	Y			
	0	0	1	1	0	0	1	1	1	5	9	56%
Q15	Y	N/A	Y	Y	N/A	Y	Y	Y	N/A			
	1	0	1	1	0	1	1	1	0	6	9	67%
Q16	Y	Y	Y	Y	N/A	Y	Y	Y	Y			
	1	1	1	1	0	1	1	1	1	8	9	89%
	3	2	2	2	0	2	2	2	1	16	27	59%

## **Costing of GSP an Issue questions**

- 12. Is cost a consideration above quality?
- 13. Is GSP included in the main plan?
- 14. Is GSP treated as a bonus?
- 15. Is there an issue in relation to penalties?
- 16. Is there a cost of employing staff?

Governance	A	B	C	D	E	F	G	H	I	Total response	Total	% results
Q17	Y	N/A	Y	Y	N/A	N/A	N/A	N/A	N/A			
	1	0	1	1	0	0	0	0	0	3	9	33%
Q18	N/A	Y	Y	N/A	N/A	Y	N/A	Y	N/A			
	0	1	1	0	0	1	0	1	0	4	9	44%
	1	1	2	1	0	1	0	1	0	7	18	39%

## Governance questions

17. Is there an issue of the use of the ethical approach when providing GSP?

18. Is corruption an issue in relation of the suppliers from LDC?



Graduation	A	B	C	D	E	F	G	H	I	Total response	Total	% results
Q19	Y	N/A	Y	Y	Y	N/A	N/A	N/A	N/A			
	1	0	1	1	1	0	0	0	0	4	9	44%
Q20	Y	Y	N/A	N/A	N/A	N/A	N/A	N/A	N/A			
	1	1	0	0	0	0	0	0	0	2	9	22%
Q21	Y	Y	Y	Y	N/A	Y	N/A	N/A	N/A			
	1	1	1	1	0	1	0	0	0	5	9	56%
	3	2	2	2	1	1	0	0	0	11	27	41%

## Graduation questions

19. Has graduation been replaced by another trade agreement?

20. Is there an issue with the removal of different layers of GSP i.e. GSP+?

21. Is graduation an issue?

Move from GSP to FTA	A	B	C	D	E	F	G	H	I	Total response	Total	% results
Q22	Y	N/A	Y	N/A	N/A	N/A	Y	N/A	N/A			
	1	0	1	0	0	0	1	0	0	3	9	33%
Q23	Y	Y	Y	Y	Y	Y	Y	N/A	Y			
	1	1	1	1	1	1	1	0	1	8	9	89%
	2	1	2	1	1	1	2	0	1	11	18	61%

### Move from GSP to FTA questions

22. The Free Trade Agreements customs documentation is similar to GSP.

23. At the moment there is a move from GSP to Free Trade Agreements.

Remote	A	B	C	D	E	F	G	H	I	Total response	Total	% results
Q24	Y	Y	Y	Y	N/A	Y	Y	Y	Y			
	1	1	1	1	0	1	1	1	1	8	9	89%

## Remote question

Q24. Do you feel remote from the EU GSP process?

Changes in the HM Customs and Revenue	A	B	C	D	E	F	G	H	I	Total response	Total	% results
Q25	N/A	N/A	Y	Y	N/A	Y	N/A	Y	Y			
	0	0	1	1	0	1	0	1	1	5	9	56%

### Changes in the HM Customs and Revenue question

Q25. Have you seen changes in the approach HM Customs and Revenue with regards to preference?

GSP used as a Protectionist tool	A	B	C	D	E	F	G	H	I	Total response	Total	% results
Q26	N/A	N/A	Y	N/A	Y	Y	N/A	N/A	N/A			
	0	0	1	0	1	1	0	0	0	3	9	33%

### GSP used as a Protectionist tool question

Q26. Is GSP used as a political and protectionist tool?

Agents	A	B	C	D	E	F	G	H	I	Total response	Total	% results
Q27	Y	N/A	Y	Y	N/A	N/A	N/A	N/A	N/A			
	1	0	1	1	0	0	0	0	0	3	9	33%

## Agent's questions

Q27      Has graduation been replaced by another trade agreement?